Steven A. McNamara
Inspector General

Office of Inspector General
U.S. House of Representatives
Washington, DC 20515-9990

**MEMORANDUM**

TO: The Honorable Bob Ney, Chairman
Committee on House Administration

The Honorable Steny Hoyer, Ranking Minority Member
Committee on House Administration

FROM: Steven A. McNamara
Inspector General

DATE: October 10, 2002

SUBJECT: Final Report - Audit Of The Financial Statements For The Year Ended December 31, 2001 (Report No. 02-HOC-06)

Attached is our final report on the audit of the House of Representatives' (House) consolidated financial statements for the year ended December 31, 2001. The report includes the House's *Financial Statements*, *Notes to the Financial Statements*, *Supplemental Financial Schedules, Management Report on Internal Control,* and *Chief Administrative Officer (CAO) Response to the 2001 Financial Statement Audit Report.* Also included is the *Independent Auditor's Report* which encompasses Cotton & Company LLP's opinion on the *Financial Statements*, *Independent Auditor's Report on Compliance with Laws and Regulations*, and *Independent Auditor's Report on Internal Control*.

In accordance with applicable auditing standards, Cotton & Company LLP took into consideration in this report any events which would have required an adjustment to the House's *Financial Statements*, *Notes to the Financial Statements,* or *Supplemental Financial Schedules*, up to the issuance date of this report. In addition, the report discloses problems associated with the House's financial management activities and includes recommendations to improve those activities.

## Objectives And Scope Of Audit

The objectives of this audit were to assess whether the House's consolidating financial statements present fairly, as of December 31, 2001, the overall financial position, results of operations, and cash flows in accordance with generally accepted accounting principles. This report also presents opinions on the House's compliance with applicable laws and regulations and the fairness of management's assertion on whether the House's internal control structure provides reasonable assurance of achieving generally accepted control objectives. As part of this audit, we followed up on the status of the House's efforts to implement prior audit recommendations reported for the year ended December 31, 2000.

During the audit work performed by Cotton & Company LLP, we monitored the audit work and its progress, approved the scope of the audit and performed other procedures we deemed necessary. The audit was conducted in accordance with *Government Auditing Standards,* issued by the Comptroller General of the United States.

**Results Of Audit**

The House continued to make progress during the past year in improving its financial management and operations. For the fourth year, the independent auditors expressed an "unqualified opinion" on the House's financial statements, stated that the financial statements fairly present, in all material respects, the financial position of the House and the results of its operations and cash flows in conformity with generally accepted accounting principles. In addition, the *Independent Auditor's Report on Compliance with Laws and Regulations* identified no instances of noncompliance.

The *Independent Auditor's Report on Internal Control* identified four internal control weaknesses--all of which are reportable conditions. During calendar year 2001, the House implemented or initiated corrective actions to address the 13 prior audit recommendations contained in last year's report. Due to the House's progress towards improving financial-related activities, we were able to close (i.e., fully implemented or otherwise resolved) five of the eight prior recommendations.

**Prior Audit Coverage**

The follow-up work performed on the 13 prior recommendations related to three previously issued audit reports. A brief description of each of these reports is provided below. The status of these prior recommendations is addressed in the *Independent Auditor's Report on Internal Control*.

- *Audit Of The Financial Statements For The Year Ended December 31, 2000* (Report No. 01-HOC-07, dated November 19, 2001) identified four reportable conditions that could adversely affect the House's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Five recommendations remain open.
- *Audit Of The Financial Statements For The Year Ended December 31, 1998* (Report No. 99-HOC-07, dated September 24, 1999) identified five reportable conditions that could adversely affect the House's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. One recommendation remains open.
- *Audit Of Financial Statements For The 15-Month Period Ended December 31, 1994* (Report No. 95-HOC-22, dated July 18, 1995) identified 14 material weaknesses that could adversely affect the House's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Two recommendations remain open.

**Recommendations**

The *Independent Auditor's Report on Internal Control* contains the four remaining internal control weaknesses. This report contains 18 recommendations consisting of 8 prior recommendations, for which corrective actions are in varying stages of implementation, and 10 new recommendations.

**Management Response**

The CAO responded to the draft *Independent Auditor's Report on Internal Control* on July 30, 2002. In his response, which is included in its entirety as an appendix to this report, the CAO fully concurred with the reported internal control weaknesses and recommendations for corrective action.

**Office of Inspector General Comments**

The actions taken and planned by the CAO are responsive to the issues identified and, when fully implemented, should satisfy the intent of the recommendations. Further, the milestone dates provided for completing actions on the open recommendations appear reasonable. The CAO has identified 12 recommendations for closure; audit follow-up will be conducted on these recommendations during subsequent audits.

Attachments

cc: Speaker of the House
Majority Leader of the House
Minority Leader of the House
Members, Committee on House Administration

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# Independent Auditor's Report

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## INDEPENDENT AUDITOR'S REPORT

To the Inspector General
U.S. House of Representatives

Cotton & Company LLP has audited the accompanying Consolidated Statement of Financial Position of the U.S. House of Representatives as of December 31, 2001, and 2000, and the related Consolidated Statements of Operations and Cash Flows for the years then ended. These financial statements are the responsibility of the Members and administrative management of the House. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and with *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the House as of December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplemental schedules are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of individual entities within the House. The supplemental schedules have been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, such information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

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In accordance with *Government Auditing Standards*, we have also issued reports dated May 31, 2002, on our consideration of the House's internal control and its compliance with applicable laws, rules, and regulations. Our reports on internal control and compliance are an integral part of an audit conducted in accordance with *Government Auditing Standards* and, in considering the results of the audits, those reports should be read together with this report.

COTTON & COMPANY LLP

Matthew H. Johnson, CPA

May 31, 2002
Alexandria, Virginia

# Financial Statements

# U.S. House of Representatives
# Consolidated Statement of Financial Position
# as of December 31, 2001 and December 31, 2000

| | 2001 Consolidated | Restated 2000 Consolidated |
|---|---|---|
| **ASSETS** | | |
| Fund Balance with the U.S. Treasury (Note 4) | $ 888,664,536 | $ 734,094,234 |
| Cash (Note 4) | 0 | 0 |
| Fund Balance with U.S. Treasury and Cash | 888,664,536 | 734,094,234 |
| Accounts Receivable | 383,583 | 458,961 |
| Interoffice Receivable | 0 | 0 |
| Advances and Prepayments (Note 5) | 3,906,398 | 3,171,509 |
| Inventory | 1,099,905 | 1,058,661 |
| Property and Equipment, Net (Note 6) | 20,802,937 | 18,415,575 |
| Total Assets | $ 914,857,359 | $ 757,198,940 |
| **LIABILITIES AND NET POSITION** | | |
| Accounts Payable (Note 8) | $ 22,770,532 | $ 12,957,195 |
| Interoffice Payable | 0 | 0 |
| Capital Lease Liabilities (Note 7) | 0 | 119,777 |
| Accrued Funded Payroll and Benefits (Note 9) | 6,882,011 | 6,589,777 |
| Accrued Unfunded Annual Leave and Workers' Compensation (Note 9) | 4,460,233 | 4,305,438 |
| Unfunded Workers' Compensation Actuarial Liability (Note 10) | 11,458,591 | 10,379,743 |
| Other Liabilities | 12,430 | 66,115 |
| Total Liabilities | 45,583,797 | 34,418,045 |
| Unexpended Appropriations | 855,036,339 | 705,483,064 |
| Cumulative Results of Operations | 14,237,223 | 17,297,831 |
| Total Net Position (Note 11) | 869,273,562 | 722,780,895 |
| Total Liabilities and Net Position | $ 914,857,359 | $ 757,198,940 |

*The accompanying notes are an integral part of the financial statements.*

# U.S. House of Representatives
# Consolidated Statement of Operations
# for the Years Ended December 31, 2001 and December 31, 2000

| | 2001 Consolidated | 2000 Consolidated |
|---|---|---|
| **REVENUE AND FINANCING SOURCES** | | |
| Revenue from Operations | | |
| Sales of Goods | $ 3,123,996 | $ 2,893,650 |
| Sales of Services to Federal Agencies | 363,396 | 606,604 |
| Sales of Services to the Public | 625,812 | 626,846 |
| Interoffice Sales (Note 12) | 0 | 0 |
| Other Revenue | 532,066 | 545,364 |
| Total Revenue from Operations | 4,645,270 | 4,672,464 |
| Financing Sources | | |
| Appropriations to Cover Expenses: | | |
| Appropriations Received (Note 13) | 906,053,388 | 879,389,533 |
| Appropriations Yet To Be Received (Note 13) | 2,528,148 | (240,457) |
| Imputed Financing Source (Note 14) | 35,669,323 | 36,334,780 |
| Total Revenue and Financing Sources | $ 948,896,129 | $ 920,156,320 |
| **EXPENSES** | | |
| Personnel Compensation | $ 550,912,773 | $ 544,354,143 |
| Benefits (Note 14) | 194,759,540 | 190,592,823 |
| Postage and Delivery | 21,508,763 | 21,246,161 |
| Repairs and Maintenance | 48,745,379 | 41,095,031 |
| Depreciation and Amortization (Note 6) | 8,566,957 | 10,110,788 |
| Rent, Utilities, and Communications | 20,717,452 | 18,666,994 |
| Telecommunications | 17,116,072 | 18,823,227 |
| Supplies and Materials | 8,588,125 | 9,669,608 |
| Travel and Transportation | 21,919,364 | 19,495,696 |
| Contract, Consulting, and Other Services | 26,292,287 | 23,697,153 |
| Printing and Reproduction | 12,737,475 | 11,206,902 |
| Subscriptions and Publications | 11,262,859 | 5,931,359 |
| Cost of Goods Sold | 2,541,522 | 2,302,935 |
| (Gain)/Loss on Disposal of Assets | (32,159) | 1,295,522 |
| Interest on Capital Leases | 2,306 | 11,082 |
| Total Expenses | $ 945,638,715 | $ 918,499,424 |
| Excess (Shortage) of Revenue and Financing Sources over Total Expenses | $ 3,257,414 | $ 1,656,896 |
| **CHANGE IN NET POSITION** | | |
| Net Position, Beginning Balance | $ 722,780,895 | $ 845,556,380 |
| Adjustments | 0 | 0 |
| Net Position, Beginning Balance | 722,780,895 | 845,556,380 |
| Excess (Shortage) of Revenue and Financing Sources over Total Expenses | 3,257,414 | 1,656,896 |
| Plus (Minus) Non-Operating Changes | 143,235,253 | (124,432,381) |
| Net Position, Ending Balance | $ 869,273,562 | $ 722,780,895 |

*The accompanying notes are an integral part of the financial statements.*

# U.S. House of Representatives
# Consolidated Statement of Cash Flows
# for the Years Ended December 31, 2001 and December 31, 2000

| | 2001 Consolidated | 2000 Consolidated |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Excess/(Deficiency) of Revenue and Financing Sources over Expenses | $ 3,257,414 | $ 1,656,896 |
| Adjustments Affecting Cash Flow | | |
| Appropriations to Cover Expenses | (908,581,536) | (879,149,076) |
| (Increase)/Decrease in Accounts, Interoffice, and Appropriations Receivable | 75,378 | 3,762 |
| (Increase)/Decrease in Advances and Prepayments | (734,889) | 2,483,645 |
| (Increase)/Decrease in Inventory | (41,244) | 295,117 |
| Increase/(Decrease) in Accounts, Interoffice, and Appropriations Payable | 9,813,337 | (13,517,828) |
| Increase/(Decrease) in Other Accrued Liabilities | 1,352,415 | (9,893,508) |
| (Gain)/Loss on Disposal of Assets | (32,159) | 1,295,522 |
| Depreciation and Amortization | 8,566,957 | 10,110,788 |
| Net Cash Provided/(Used) by Operating Activities | (886,324,327) | (886,714,682) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchase of Property and Equipment | (11,524,000) | 1,904,836 |
| Net Cash Provided/(Used) by Investing Activities | (11,524,000) | 1,904,836 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Appropriations | 1,064,564,053 | 762,068,345 |
| Funds Returned to the U.S. Treasury | (15,283,061) | (9,008,546) |
| Appropriated Funds Unallocated | 3,257,414 | 1,656,896 |
| Principal Payment on Capital Lease Liabilities | (119,777) | (212,270) |
| Net Cash Provided/(Used) by Financing Activities | 1,052,418,629 | 754,504,425 |
| Net Cash Provided/(Used) by Operating, Investing, and Financing Activities | 154,570,302 | (130,305,421) |
| Fund Balance with U.S. Treasury and Cash, Beginning | 734,094,234 | 864,399,655 |
| Fund Balance with U.S. Treasury and Cash, Ending | $ 888,664,536 | $ 734,094,234 |

*The accompanying notes are an integral part of the financial statements.*

# Notes to the Financial Statements

# NOTE 1 - DESCRIPTION OF THE REPORTING ENTITY

The U.S. House of Representatives (House) is one of two separate legislative chambers that comprise the Congress of the United States. The other is the U.S. Senate (Senate). All lawmaking powers of the Federal government are given to the Congress under Article I of the Constitution of the United States. The House and Senate jointly agree on a budget for the Legislative Branch and submit it to the President of the United States. The Members of the House serve two-year terms of office, which coincide with the sequential numbering of the entire Congress. These financial statements cover the years ended December 31, 2001 and 2000 and reflect the financial activities of the first session of the 107th Congress and the second session of the 106th Congress.

To help carry out its constitutional duties, the House creates committees of Members and assigns them responsibility for gathering information, identifying policy problems, proposing solutions, and reporting bills to the full chamber for consideration. The House appoints unelected officers to administer both legislative and non-legislative functions, which support the institution and its Members in carrying out its legislative duties. The consolidated comparative financial statements of the House provide financial information on the activities of all entities, which are subject to the authority vested in the House by the U.S. Constitution, public laws, and rules and regulations adopted by the membership of the House.

These financial statements reflect the organizational structure of the House under the 107th Congress. The following is a summary of the entity groupings as they appear in the calendar year 2001 combining financial statements:

House **Members** are elected from congressional districts of approximately equal population. The financial information in the Members column aggregates the accounts and financial transactions of the Members' district and Washington, D.C. offices, and includes 435 Representatives; four Delegates, one each, from the District of Columbia, Guam, Virgin Islands, and American Samoa; and one Resident Commissioner from Puerto Rico. Member transactions primarily comprise expenses for employee and Member salaries, district office space rental, travel, telecommunications, and postage costs, including Franking costs.

The **Committees** column aggregates accounts and financial transactions of the Standing Committees, Special, and Select, of the 107th Congress. Committees are organized at the beginning of each Congress according to their jurisdictional boundaries incorporated in the Rules of the House. The Standing Committees, Special and Select, of the House under the 107th Congress are:

Committee on Agriculture
Committee on Appropriations
Committee on Armed Services
Committee on the Budget
Committee on Education and the Workforce
Committee on Energy and Commerce
Committee on Financial Services
Committee on Government Reform
Committee on House Administration
Committee on International Relations
Committee on the Judiciary
Committee on Resources
Committee on Rules
Committee on Science
Committee on Small Business
Committee on Standards of Official Conduct
Committee on Transportation and Infrastructure
Committee on Veterans' Affairs
Committee on Ways and Means
Permanent Select Committee on Intelligence

The House **Leadership Offices** column includes the financial transactions of :

Speaker of the House
Majority and Minority Leaders
Majority and Minority Whips
Chief Deputy Majority and Minority Whips
Speaker's Office for Legislative Floor Activities
Party Steering Committees, Caucus or Conference, which consist of Representatives of the same political party

The **Officers and Legislative Offices** column aggregates the financial transactions of all legislative support and administrative functions provided to Members, Committees, and Leadership offices, including:

Clerk of the House
Sergeant at Arms
Chief Administrative Officer
Chaplain
Parliamentarian
Office of the Legislative Counsel
Corrections Calendar Office
Office of the General Counsel
Office of the Law Revision Counsel
Office of Inspector General

The **Joint Functions** column includes joint activities of the House and the Senate to the extent that the House funds these functions in whole or in part.

House administrative management does not exert direct control over the expenditures of these functions. The joint functions in these statements include:

Attending Physician
Joint Committee on Taxation, which has members from both the House and the Senate

The **Eliminations** column on the combining financial statements is used to negate the effect of financial transactions between House entities. Consolidated House financial information would be misleading if inter-entity transactions were not eliminated

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### A. Basis of Consolidation

The financial statements include the accounts and significant activities of the House. The consolidated financial statements do not include legislative agencies that support the House and that receive separate appropriations. These agencies include:

Library of Congress
Congressional Budget Office
General Accounting Office
Government Printing Office
U.S. Botanic Garden
Architect of the Capitol
U.S. Capitol Police

Functions jointly shared between the House and the Senate are included in the combining financial statements to the extent their operations are funded by House appropriations. These consist of:

Attending Physician
Joint Committee on Taxation, which has members from both the House and the Senate

All significant interoffice balances and transactions have been eliminated to arrive at consolidated financial information.

### B. Basis of Accounting

The House, in accordance with generally accepted accounting principles, utilizes the accrual basis of accounting, which provides for the recognition of events as they occur, as opposed to when cash is received or disbursed. Therefore, revenues are recorded when earned and expenses are recorded when a liability is incurred, without regard to receipt or payment of cash. The accrual basis of accounting contributes significantly to the development of accurate cost information needed to report the financial position and results of operations.

### C. Fund Balance with the U.S. Treasury and Cash

Funds available to the House to pay current liabilities and finance authorized purchases are held with the U.S. Treasury.

- Fund Balance with the U.S. Treasury includes House accounts, as well as the Congressional Use of Foreign Currency account, which is held at the U.S. Treasury and is maintained and administered by the Department of State on behalf of the House.
- For purposes of the Consolidated Statement of Cash Flows, funds held with the U.S. Treasury are considered cash.

### D. Accounts Receivable

Accounts receivable consists of money owed the House by Members, employees and/or vendors. No allowances for doubtful collections are recorded because the identified receivables were not in doubt.

### E. Advances and Prepayments

Advances consist of payments to Federal government entities for contractual services and for mailings that require address corrections or additional postage. Prepayments primarily consist of prepaid subscriptions for publications and data communication services.

### F. Inventory

The ***Gift Shop*** and the ***Supply Store*** maintain an inventory of goods for sale. These entities are included in the Officers and Legislative Offices column of the financial statements. Inventories for sale are valued at the moving weighted average method.

The ***Furniture Resource Center***, also included in the Officers and Legislative Offices column, maintains inventories of such items as hardwood, carpet, leather, fabric, furniture components, and repair materials. These items are not for sale and are reflected in the financial statements at an estimated value based on the first in/first out inventory valuation method.

### G. Property and Equipment

Expenditures for property and equipment that will benefit more than one accounting period are considered capital expenditures. The costs of such items are recognized as assets when acquired. An appropriate portion of an asset's value is reduced and an expense recognized over the accounting periods benefited by the asset's use. Property and equipment purchases, including computers, are capitalized if the unit acquisition cost is equal to or greater than $25,000 and the item has a useful life greater than one year. Software is capitalized if the unit acquisition cost is equal to or greater than $10,000 and the item has a useful life greater than one year. See Note 6, Property and Equipment, for additional information on property and equipment held by the House.

The House has possession of numerous assets that may be of significant historical and artistic value. The House does not include these assets in the financial statements. The land and buildings occupied and used by Members, officers, and employees in Washington, D.C. are under the custody of the Architect of the Capitol and are not included in the financial statements of the House.

### H. Leases

The House leases office space, vehicles, computers and other equipment. These leases are generally classified as operating leases. House regulations require that leases entered into by Members for space and vehicles be no longer than the elected term of the Member. The House also enters into leases, which are structured such that their terms effectively finance the purchase of the item. Such leases convey the benefits and risks of ownership and are classified as capital leases, if the net present value of the minimum lease payments due at lease inception meets House capitalization criteria. Items acquired by capital leases are recorded as House assets. The asset and corresponding liability are recorded at the net present value of the minimum lease payments at lease inception. The portion of capital lease payments representing imputed interest is expensed as interest on capital leases. See Note 7, Lease Commitments, for additional lease information.

### I. Revenue from Operations

Revenue is recognized when goods have been delivered or services rendered.

- Sales of goods consist of ***Gift Shop*** and ***Supply Store*** sales.
- Sales of services to Federal entities are comprised of House Information Resources (HIR) computer services provided to the Congressional Budget Office.
- Sales of services to the public are comprised of photography sales, Child Care fees, and Attending Physician user fees.
- Interoffice sales between House entities consist of computer services, telecommunications, office supplies, framing, recording, office equipment, photography, and tape duplication charges and are eliminated on the combining financial statements.
- Other revenue consists of Page School room and board, and vendor commissions.

### J. Appropriations to Cover Expenses, Appropriations Receivable, and Appropriations Payable

Like other Federal government organizations, the House finances most of its operations with appropriations. The expenses of Members, Committees, and Leadership offices are entirely financed with appropriations. Other House entities require appropriations to the extent the revenue generated does not cover expenses. Appropriations are considered a financing source, not a revenue, since appropriations do not result from an earnings process.

The Office of Finance maintains House accounts with the U.S. Treasury and is responsible for allocating appropriations to the other House entities to cover expenses. Therefore, an Appropriations

Payable arises in the Office of Finance. A corresponding Appropriations Receivable arises in each House entity for the amount due from the Office of Finance to pay the entity's liabilities.

### K. Postage and Delivery

Postage and delivery consists of Franked mail expenses and miscellaneous postage expenses. Members' postage includes the use of the Frank, which is charged to the Members' Representational Allowances. Miscellaneous postage expenses include courier charges, stamps, and rental of post office boxes.

### L. Repairs and Maintenance

Repairs and maintenance include all expenses related to the maintenance and upkeep of House equipment in both Washington, D.C. and in Members' district offices, as well as related operating lease payments on various types of equipment. In addition, property and equipment purchases below the capitalization thresholds discussed in Note 2G, Property and Equipment, are classified as repairs and maintenance.

### M. Depreciation and Amortization

The cost of capital assets is allocated ratably over an asset's useful life as depreciation or amortization expense. The House calculates depreciation and amortization expense based on the straight-line method over an asset's estimated useful life. Depreciation expense is applicable to tangible assets such as furniture, equipment, and vehicles. Amortization expense is applicable to intangible assets such as software and capital leases. Assets acquired under capital leases are generally amortized over the lease term. However, if a lease agreement contains a bargain purchase option or otherwise transfers title of the asset to the House, the asset is amortized on the same basis as similar categories of owned assets.

### N. Rent, Utilities, and Communications

Rent and utilities consist primarily of the rental of district offices by Members and any related utility payments. Communications costs consist of charges for news wire services, satellite fees, and external network access services.

### O. Telecommunications

Telecommunications expense includes local and long distance telephone service in Washington, D.C. and in Members' district offices.

### P. Supplies and Materials

Supplies and materials are expenses by Members, Committees, and other House offices for paper and other office supplies. Supplies and materials also include medical supplies purchased by the Attending Physician. Supplies and materials do not include inventories held for sale by retail entities such as the ***Gift Shop*** and the ***Supply Store.***

### Q. Travel and Transportation

Travel and transportation expenses include official travel by Members, Committees, and Leadership offices; travel by other House officers and employees and congressional delegations; freight and shipping costs; and expenses related to the lease and maintenance of vehicles.

### R. Contract, Consulting, and Other Services

Contract, consulting, and other services include the cost of management services in House Postal Operations, annual audit fees, the cost of studies and analyses requested by Committees, as well as computer, recording, janitorial, and catering services.

### S. Printing and Reproduction

This category primarily includes printing and reproduction of constituent communications. Also included are photography services, and printing and reproduction of items such as informational publications and reference materials.

### T. Subscriptions and Publications

Subscriptions and publications include the cost of periodicals and news services.

### U. Cost of Goods Sold

Cost of goods sold includes the cost of products sold in the retail operations of the ***Gift Shop*** and the ***Supply Store.***

### V. Loss or Gain on Disposal of Assets

A loss is recognized when the net book value of the asset at the time of disposal exceeds any proceeds received. A gain is recognized when the net book value of the asset at the time of disposal is less than any proceeds received.

### W. Annual Leave

Annual leave for the House Officers and their employees is accrued as earned, and the liability is reduced as leave is taken. The accrued annual leave balance as of December 31, 2001 is calculated according to Public Law 104-53, November 19, 1995, 109 Stat. 514.

### X. Federal Employee and Veterans Benefits

This benefit expense includes the current cost of providing future pension benefits to eligible employees at the time the employees' services are rendered. Also included is the current period expense for the future cost of providing retirement benefits and life insurance to House employees. See Note 14, Benefits, for additional information.

### Y. Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, as well as the disclosure of contingent assets and liabilities at the date of the financial statements, and the amount of revenue and expense reported during the period. Actual results could differ from those estimates.

### Z. Reclassifications

Certain calendar year 2000 balances have been reclassified and restated to conform to the calendar year 2001 financial statement presentations, the effect of which is immaterial.

## NOTE 3 - INTRAGOVERNMENTAL FINANCIAL ACTIVITIES

The House has significant intragovernmental financial activities with Executive and Legislative Branch entities. These financial activities include transactions and agreements to purchase goods and services.

### Transactions with Executive Branch Agencies

The House's most significant interagency transactions are with the:

- U.S. Postal Service for postage.
- U.S. Department of Labor (DOL) for unemployment and workers' compensation.
- General Services Administration for the use and upkeep of office space in certain Members' district offices, office supplies and leased vehicles.
- U.S. Department of the Interior, U.S. Geological Survey, National Business Center for financial system contract and consulting services.
- U.S. Department of Transportation for transit benefits program. Cash disbursements made to the Department of Transportation on behalf of U.S. Capitol Police for security enhancements as of September 30, 2000 amounted to $12,100,000.
- Other Executive Branch agencies for special studies as requested by House Committees.

Significant cash disbursements to Executive Branch agencies during the years ended December 31, 2001 and 2000 were approximately:

| Disbursements to Executive Branch Agencies | 2001 | 2000 |
|---|---|---|
| U.S. Postal Service | $ 16,400,000 | $ 20,800,000 |
| U.S. Department of Labor | 2,600,000 | 2,800,000 |
| General Services Administration | 5,600,000 | 4,800,000 |
| U.S. Department of the Interior | 1,100,000 | 1,200,000 |
| U.S. Department of Transportation | 300,000 | 12,300,000 |
| Other Executive Branch Agencies | 100,000 | 500,000 |

The House also reports significant financial transactions with the U.S. Department of State, which maintains and administers the Congressional Use of Foreign Currency account on behalf of Congress. This account, which was established in 1948 and made permanent in 1981, is authorized by legislation codified in Title 22, Sec. 1754 of the United States Code. The funds are available to Congressional Committees and delegations to cover local currency expenses incurred while traveling abroad. The fund balance related to the account is included in the Office of Finance's Fund Balance with U.S. Treasury under Officers and Legislative Offices.

Use of the foreign currency account for Congressional delegations and other official foreign travel of the House is authorized by either the Speaker of the House or the chairman of a Standing, Special and Select, or Joint Committee. Therefore, all foreign currency account financial activity is reported as Committee and Leadership office travel expense.

| Foreign Currency Balance with the U.S. Department of State | 2001 | 2000 |
|---|---|---|
| Beginning Balance | $ 3,482,874 | $ 3,710,073 |
| Appropriation Received | 8,600,000 | 2,500,000 |
| Travel Expenses: | | |
| Leadership | (628,184) | (200,472) |
| Committees | (3,431,409) | (2,526,727) |
| Ending Balance | $ 8,023,281 | $ 3,482,874 |

### Transactions with Legislative Branch Entities

The House pays for support services provided by other Legislative Branch entities. Some of these services are shared with the Senate. These entities receive their own appropriations and operate autonomously from the House’s administrative functions. The House also receives support services from the General Accounting Office, Government Printing Office, Library of Congress, Congressional Budget Office, and U.S. Botanic Garden.

Significant cash disbursements to Legislative Branch entities during the years ended December 31, 2001 and 2000, were approximately:

| Cash Disbursements to Legislative Branch Entities | 2001 | 2000 Restated |
|---|---|---|
| General Accounting Office | $ 25,000 | $ 100,000 |
| Architect of the Capitol | 289,000 | 272,000 |
| Government Printing Office | 257,000 | 100,000 |

The House also receives payment for services provided to other Federal government entities, such as computer services. Cash receipts for services provided by the House to other Federal entities were $1,290,920 and $2,992,344 for the years ended December 31, 2001 and 2000, respectively. The House did not provide computer services to the General Accounting Office in 2001.

Receipts from the Legislative Branch entities were approximately $860,000. The following were the most significant users of House services:

| Cash Receipts from Legislative Branch Entities | 2001 | 2000 Restated |
|---|---|---|
| General Accounting Office | $ - | $ 100,000 |
| Architect of the Capitol | 259,000 | 466,000 |
| Congressional Budget Office | 589,000 | 636,000 |

## Note 4—FUND BALANCE WITH THE U.S. TREASURY AND CASH

The House has appropriated and revolving fund balances with the U.S. Treasury. The balances, as of December 31, 2001 and 2000 were:

| Fund/Cash Accounts Maintained by the House | 2001 | 2000 |
|---|---|---|
| Fund Balance with Treasury | $ 880,641,255 | $ 730,611,360 |
| Congressional Use of Foreign Currency | 8,023,281 | 3,482,874 |
| Total | $ 888,664,536 | $ 734,094,234 |

Unlike Executive Branch departments and agencies, the House's appropriation is not apportioned by quarter. The House receives its entire annual appropriation in October, resulting in the fund balance with the U.S. Treasury to be relatively large at December 31, 2001 and 2000. The fund balance was significantly higher at December 31, 2001 due to an increase in the fiscal year 2002 enacted appropriations, fiscal year 2002 emergency supplemental appropriations and both fiscal year 2001 regular and emergency supplemental appropriations.

The House does not have petty cash nor balances with its commercial bank accounts as of December 31, 2001.

## NOTE 5 - ADVANCES AND PREPAYMENTS

Advances and prepayments are transfers of cash to cover future expenses or the acquisition of assets. These goods and/or services are delivered in increments that span several months. Advance payments are recorded as assets. As the goods and/or services are rendered, the Advance account is drawn down and the appropriate asset or expense is recognized. Prepayments are made for subscriptions and software licenses and are charged as expenses. At year end, all such payments made for the previous, current and succeeding year are analyzed to determine the proper expense and prepayment amounts applicable to the current accounting period for financial statement purposes. Advances and Prepayments are:

| | 2001 | 2000 |
|---|---|---|
| Advances | $ 1,005,366 | $ 744,243 |
| Prepayments | 2,901,032 | 2,427,266 |
| | $ 3,906,398 | $ 3,171,509 |

## NOTE 6 - PROPERTY AND EQUIPMENT

Software and equipment, including computers, are capitalized if their acquisition cost equals or exceeds $10,000 and $25,000, respectively. Work in process consists of capitalized costs associated with the Fixed Asset and Inventory Management System (FAIMS). Depreciation and amortization expense is based on the straight-line method over an asset's estimated useful life. Property and equipment as of December 31, 2001 and the related depreciation and amortization expense are:

| 2001 Classes of Property and Equipment | Service Life (Years) | Estimated Acquisition Value | Accumulated Amortization/ Depreciation | Estimated Net Book Value | Amortization/ Depreciation Expense |
|---|---|---|---|---|---|
| Work in Process | N/A | $ 4,599,105 | $ - | $ 4,599,105 | $ - |
| Computer Software, Hardware, and Vehicles | 3 | 55,635,348 | 47,385,709 | 8,249,639 | 4,741,171 |
| Computer Software and Hardware | 5 | 2,172,581 | 2,172,581 | - | - |
| Equipment and Motor Vehicles | 5 | 31,128,816 | 23,738,080 | 7,390,736 | 3,625,371 |
| Heavy Duty Vehicle | 7 | - | - | - | - |
| Furnishings and Other Equipment | 10 | 2,918,966 | 2,355,509 | 563,457 | 135,184 |
| Assets Under Capital Lease | 5 | - | - | - | 65,231 |
| Total | | $ 96,454,816 | $ 75,651,879 | $ 20,802,937 | $ 8,566,957 |

Property and equipment as of December 31, 2000, and the related depreciation and amortization expense are:

| 2000 Classes of Property and Equipment | Service Life (Years) | Estimated Acquisition Value | Accumulated Amortization/ Depreciation | Estimated Net Book Value | Amortization/ Depreciation Expense |
|---|---|---|---|---|---|
| Work in Process | N/A | $ 4,126,948 | $ - | $ 4,126,949 | $ - |
| Computer Software, Hardware, and Vehicles | 3 | 61,350,306 | 56,020,702 | 5,329,604 | 4,660,710 |
| Computer Software and Hardware | 5 | 1,204,364 | 1,204,364 | - | 38,922 |
| Equipment and Motor Vehicles | 5 | 32,569,586 | 24,375,868 | 8,193,718 | 4,979,396 |
| Heavy Duty Vehicle | 7 | 15,172 | 13,739 | 1,433 | 1,173 |
| Furnishings and Other Equipment | 10 | 2,918,966 | 2,220,326 | 698,640 | 169,662 |
| Assets Under Capital Lease | 5 | 968,217 | 902,986 | 65,231 | 260,925 |
| Total | | $ 103,153,559 | $ 84,737,985 | $ 18,415,575 | $ 10,110,788 |

## NOTE 7 - LEASE COMMITMENTS

### Operating Leases

The House enters into various operating leases for temporary usage of office space, vehicles, hardware, and software. Leases that convey the benefits and risks of ownership, but do not meet House capitalization criteria are also recognized as operating leases. Operating lease payments are recorded as expenses. Future operating lease payments are not accrued as liabilities. Members may lease office space in their districts through GSA or may directly lease space from the private sector. The Members' Congressional Handbook states that a Member cannot enter into a lease for office space beyond his/her elected term. Members and officers also enter into leases to rent vehicles for official business purposes. A Member may lease a vehicle for a period that exceeds the current congressional term, but the Member remains personally responsible for the lease liability if service to the House concludes prior to lease termination. House administration leases hardware and software.

Future Operating Lease Payments Due as of December 31, 2001:

| Year | Software and Hardware | Vehicles | Office Space | Total |
|---|---|---|---|---|
| 2002 | $ 15,780 | $ 798,061 | $ 18,035,827 | $ 18,849,668 |
| 2003 | - | - | - | - |
| 2004 | - | - | - | - |
| 2005 | - | - | - | - |
| 2006 | - | - | - | - |
| Thereafter | - | - | - | - |
| Total | $ 15,780 | $ 798,061 | $ 18,035,827 | $ 18,849,668 |

Lease expense for office space was $18,732,818 and $17,067,856 for the years ended December 31, 2001 and 2000, respectively. Lease expense for vehicles was $1,139,665 and $1,066,380 for the years ended December 31, 2001 and 2000, respectively.

## NOTE 8 - ACCOUNTS PAYABLE

Accounts Payable balances represent amounts owed for the cost of goods and services received but not yet paid as of December 31, 2001 and 2000. Accounts Payable also includes amounts owed to DOL for unemployment compensation. Vendor Payables increased in 2001 due to delayed mail deliveries to House offices.

| Accounts Payable | 2001 | 2000 |
|---|---|---|
| Vendor Payables | $ 22,583,169 | $ 12,779,426 |
| Unemployment Compensation | 187,363 | 177,769 |
| Total | $ 22,770,532 | $ 12,957,195 |

## NOTE 9 - ACCRUED PAYROLL AND BENEFITS AND LEAVE

The accrued annual leave balances are calculated according to Public Law 104-53, November 19, 1995, 109 Stat. 514 (i.e., the lesser of the employee's monthly pay or the monthly pay divided by 30 days and multiplied by the number of days of accrued leave). Sick and other types of paid leave are expensed as they are taken. Accrued payroll and benefits include salaries and associated benefits earned in December 2001 and payable in January 2002.

The Members' and Committees' Congressional Handbooks allow offices to adopt personnel policies that provide for the accrual of annual leave and use of such leave. Leadership offices have also adopted similar policies. While leave is tracked from one pay period to the next, a consistent policy has not been formally adopted by these entities regarding the accrual and payment of leave time. As a result, an accrued leave liability for Members, Committees, and Leadership offices is not reported on the financial statements. Accrued annual leave for Officers and Legislative Offices and accrued payroll and benefits as of December 31, 2001 and 2000 were:

| Accrued Leave, Payroll and Benefits, and Workers' Compensation | 2001 | 2000 |
|---|---|---|
| **Funded** | | |
| Accrued Payroll and Benefits | $ 6,882,011 | $ 6,589,777 |
| **Unfunded** | | |
| Accrued Annual Leave | 2,465,032 | 2,309,819 |
| Accrued Workers' Compensation | 1,995,201 | 1,995,619 |
| Total Unfunded | $ 4,460,233 | $ 4,305,438 |

## NOTE 10 - UNFUNDED WORKERS' COMPENSATION ACTUARIAL LIABILITY

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Claims incurred for the benefit of House employees under FECA are administered by DOL, which pays the initial claim and obtains reimbursement from the House. The unfunded workers' compensation liability is an estimate based on actuarial calculations using historical payment patterns to predict what costs will be incurred over the next 23 years. The liability is adjusted annually by applying actuarial procedures. Any upward or downward adjustment to the liability is recorded as an annual increase or decrease to benefits expense. The projected Unfunded Workers' Compensation Actuarial Liabilities were $11,458,591 and $10,379,743 as of December 31, 2001 and 2000, respectively.

## NOTE 11 - NET POSITION

The components of Net Position are:

- Unexpended Appropriations - Appropriations are not considered expended until goods have been received or services have been rendered.

The House receives the entire amount of its annual appropriation in October, causing the unexpended appropriation balance to be relatively large at December 31. Unexpended appropriations cancel at the end of the second fiscal year following the year in which appropriated. As required by law, these funds must be returned to the U.S. Treasury general account. Funds that were canceled and returned to the U.S. Treasury during calendar years 2001 and 2000 are:

| Appropriations | 2001 | 2000 |
|---|---|---|
| 1999 House Funds | $ 15,283,061 | $ - |
| 1998 House Funds | - | 8,185,981 |
| Total | $ 15,283,061 | $ 8,185,981 |

- Total Cumulative Results of Operations:

  Cumulative Results of Operations - The net difference between expenses and revenue and financing sources including appropriations, revenues from operations and imputed financing sources.

  Invested Capital - Funds used to finance capital assets such as computer hardware and software, vehicles, equipment, and inventory.

  Future Funding Requirements - Known liabilities to be funded by future appropriations for accrued Annual Leave and Workers' Compensation.

**Net Position** as of December 31, 2001 and 2000, for Appropriated Funds and Revolving Funds, including the House Recording Studio, Page School, Restaurant, Barber and Beauty Shops, and Office Supply Service revolving funds is shown in the following table:

| Net Position | Net Position December 31, 2001 Totals | Net Position December 31, 2000 Totals Restated |
|---|---|---|
| Unexpended Appropriations | $ 855,036,339 | $ 705,483,064 |
| Total Cumulative Results of Operations | | |
| Cumulative Results of Operations | 8,253,205 | 12,628,553 |
| Invested Capital | 21,902,842 | 19,354,459 |
| Future Funding Requirements | (15,918,824) | (14,685,181) |
| Total Net Position | $ 869,273,562 | $ 722,780,895 |

Changes in net position may include prior period adjustments, excesses or shortages of revenue and financing sources over expenses, and non-operating changes, such as investments in capital assets and inventory. Increases (or decreases) in non-operating changes result when amounts invested in capital assets and inventory exceed (or are less than) the amounts of liabilities to be funded by future appropriations.

The Net Position table above reflects an additional cumulative results of operations line which further disaggregates activity other than invested capital or future funding requirements.

Net Position as of December 31, 2000 was restated to reflect adjustments to reclassify unexpended appropriations to cumulative results of operations.

## NOTE 12 – REVOLVING FUNDS, INTEROFFICE SALES, AND TRANSFERS

Some House entities transfer costs to Members, Committees, and other House offices for goods and services provided. These entities are primarily:

- Office Systems Management, which transfers costs of equipment to the Members and Committees,
- House Information Resources, which transfers telecommunication charges, and
- Office Supply Service, which transfers office supply purchases and flag sales.

Many expenses incurred by these House entities are not fully charged to Members or Committees, including certain telecommunication services, Washington D.C. office furnishings, and computer services.

Some House business-like entities operate as revolving funds. A revolving fund is a budgetary structure established by statute that authorizes entities to collect user fees or revenue to finance operating expenses. In 2001, the House operated revolving fund type activities for the House Recording Studio, Page School, Office Supply Service, Restaurant, and Beauty and Barber Shops.

## NOTE 13 - APPROPRIATIONS TO COVER EXPENSES

**Appropriations Received** includes current and prior year funds necessary to finance House operating expenses such as personnel and benefits costs, contract services, and travel expenses. The House recognizes the receipt of appropriations in the same period in which the associated expense is incurred. Therefore, Appropriations Received to fund investments in capital assets and inventory are not recognized as received until the period in which the capital asset is depreciated or the inventory is consumed.

**Appropriations Yet To Be Received** consists of expenses that are incurred in the current period, but will be funded by future appropriations. Such amounts include accrued annual leave and workers' compensation expenses.

## NOTE 14 - BENEFITS

House Members and employees are covered by either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). Both Members and employees are eligible for retirement benefits under CSRS or FERS. A CSRS basic annuity, unreduced for age, debts to the fund, or survivor's benefits, is calculated by multiplying the highest 36 consecutive months' average salary by a percentage factor which is based on the length of Federal service. However, Members' benefits are different from those of employees. For example, a Member covered by CSRS is eligible to receive unreduced retirement benefits at age 60 if he or she has 10 years of Member service. An employee is eligible to receive reduced benefits at age 50 with 20 years of service or at any age with 25 years of service. The FERS basic benefit plan provides the same benefits for either Members or employees.

CSRS employees contribute a portion of their earnings to the Civil Service Retirement Fund. The House also contributes an amount to this fund. FERS employees, in addition to paying Social Security, contribute a portion of their base earnings to the FERS retirement fund. The House also contributes an amount toward the FERS retirement and Social Security funds.

Both FERS and CSRS employees can contribute to the Thrift Savings Plan (TSP). Prior to July 2001, FERS employees contributed to TSP a maximum of 10 percent of their basic pay not to exceed the Internal Revenue Service (IRS) limit. Effective July 2001, both FERS and CSRS employees' contribution limits will increase by one percent each year for five years to a maximum of 15% and 10% of the base pay of FERS and CSRS employees respectively, but not to exceed the IRS limit.

FERS employees also receive an automatic one percent House-paid contribution, as well as an additional House matching TSP contribution up to five percent of their basic pay. CSRS employee contributions to TSP do not receive matching House contributions. FERS employees could receive benefits from FERS, the Social Security System, and TSP. CSRS employees could receive benefits from CSRS and TSP.

| Member and Employee Expenses | 2001 | 2000 |
|---|---|---|
| Retirement Plan Contributions | $ 93,836,444 | $ 92,179,096 |
| Social Security | 34,717,139 | 34,115,842 |
| Health Insurance | 25,216,409 | 24,102,013 |
| Unemployment and Workers' Compensation | 2,166,767 | 1,925,587 |
| Workers' Compensation Actuarial Adjustment | 1,078,848 | (403,897) |
| Life Insurance | 900,327 | 830,792 |
| Federal Employee and Veterans' Benefits | 35,669,323 | 36,334,780 |
| Transit Benefits | 255,435 | 179,338 |
| Death Benefits | 759,271 | 955,051 |
| Annual Leave | 155,212 | 341,068 |
| Federal Tort Claims | 4,365 | 33,153 |
| Total | $ 194,759,540 | $ 190,592,823 |

Benefits costs for the past 3 years have averaged $190 million per year.

Effective in 1997, Federal-employing entities began recognizing their share of the cost of providing future pension benefits to eligible employees at the time the employees' services are rendered. This cost is included in Federal Employee and Veterans' Benefits expense. The pension expense recognized in the Statement of Operations is the current service cost for House employees less the amount contributed by the employee.

The measurement of the service cost requires the use of actuarial cost methods and assumptions, with the factors applied by the House provided by the Office of Personnel Management (OPM), the federal agency that administers the plan. The excess of the recognized pension expense over the amount contributed by the House represents the amount being financed directly through the Civil Service Retirement and Disability Fund administered by OPM.

The House does not receive an appropriation to fund this expense. Therefore, this portion of the pension expense is considered an imputed financing source to the House, and is included in the Imputed Financing Sources on the Statement of Operations. This amount was $12,654,926 in 2001, and $12,967,979 in 2000.

Also, effective in 1997, Federal-employing entities began recognizing a current period expense for the future cost of post-retirement health benefits and life insurance for its employees while they are still employed. This cost is included in Federal Employee and Veterans' Benefits expense in the Statement of Operations. Employees and the House do not currently make contributions to fund these future benefits, and the House does not receive an appropriation to fund this expense. Therefore, this portion of the post-retirement health benefits and life insurance is considered an imputed financing source to the House, and is included in Imputed Financing Sources on the Statement of Operations. This amount was $23,014,397 in 2001 and $23,366,801 in 2000.

| Federal Employee and Veterans' Benefits (Imputed Financing Source) | 2001 | 2000 |
|---|---|---|
| Current Service Cost - Federal Pensions | $ 12,654,926 | $ 12,967,979 |
| Current Service Cost - Federal Employees Health Benefits | 22,932,603 | 23,280,377 |
| Current Service Cost - Federal Employees Group Life Insurance | 81,794 | 86,424 |
| Total | $ 35,669,323 | $ 36,334,780 |

# NOTE 15 - EMERGENCY PREPAREDNESS

In the wake of the September 11th terrorist attacks and the subsequent detection of anthrax in House office buildings, the House is developing contingency plans to ensure the continuation of all House operations in the event of an emergency evacuation.

During 2001 the House received additional appropriations totaling $65.6 million to be used for emergency preparedness and continuity of operations. As of December 31, 2001, the House had expended approximately $2.7 million for emergency operations. These expenditures were associated with the temporary relocation of House Members and staff due to detection of anthrax in House office buildings on October 17, 2001.

# Supplemental Financial Schedules

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# Organization and Composition of Financial Statements

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# U.S. House of Representatives
# Organization and Composition of Consolidating Financial Statements

## Members

- Representatives, Delegates and Resident Commissioner
- Members' Allowances and Expenses

## Committees

- Committee on Agriculture
- Committee on Appropriations
- Committee on Armed Services
- Committee on the Budget
- Committee on Education and the Workforce
- Committee on Energy and Commerce
- Committee on Financial Services
- Committee on Government Reform
- Committee on House Administration
- Committee on International Relations
- Committee on the Judiciary
- Committee on Resources
- Committee on Rules
- Committee on Science
- Committee on Small Business
- Committee on Standards of Official Conduct
- Committee on Transportation and Infrastructure
- Committee on Veterans' Affairs
- Committee on Ways and Means
- Permanent Select Committee on Intelligence

## Leadership Offices

- Office of the Speaker
- Office of the Majority Leader
- Office of the Majority Whip
- Office of the Chief Deputy Majority Whip
- Office of the Minority Leader
- Office of the Minority Whip
- Office of the Chief Deputy Minority Whip
- Speaker's Office for Legislative Floor Activities
- Republican Conference
- Republican Steering Committee
- Democratic Caucus
- Democratic Steering Committee

## Officers and Legislative Offices

### Clerk

- Immediate Office
- Office of Official Reporters
- Office of Legislative Operations
- Legislative Resource Center Service Group
- Legislative Computer Systems
- Office of the House Employment Counsel
- Page Program, including Revolving Fund
- Office of Printing Services

### Sergeant at Arms

- Immediate Office
- Office of Chamber Security
- Office of House Garages and Parking Security

### Chief Administrative Officer (CAO)

- CAO Immediate Office
- Office of Americans with Disabilities Act Services
- House Press Gallery
- Periodical Press Gallery
- Radio/TV Correspondents' Gallery
- Child Care Center
- House Postal Operations
- House Support Services-Immediate Office
- Food Services
- House Restaurant Revolving Fund
- First Call
- Immediate Office of Finance
- Budget and Planning
- Financial Counseling
- Accounting
- Financial Systems
- House Beauty Shop & Barber Shop Revolving Fund
- Furniture Resource Center
- Supply Store
- Gift Shop
- Stationery Revolving Fund
- Office Systems Management
- Human Resources-Immediate Office
- Office of Member Services
- Office of Employee Assistance
- Office of Personnel and Benefits
- Office of Training
- Office of Payroll

Placement Office
Office of Policy and Administration
Office of Fair Employment
Office of Procurement
Immediate Office of the House
Information Resources
Communications
Client Services
Information Management
Office of Photography
Communications Media
House Recording Studio Revolving Fund

**Office of the Chaplain**

**Parliamentarian**

Office of the Parliamentarian
Compilation of Precedents

**Office of the Legislative Counsel**

**Office of Correction Calendar**

**Office of the General Counsel**

**Office of the Law Revision Counsel**

**Office of Inspector General**

**Joint Functions**

Office of the Attending Physician
Joint Committee on Taxation

# Consolidating Statements

# U.S. House of Representatives
# Combining Statement of Financial Position
# as of December 31, 2001

| | Members | Committees | Leadership Offices |
|---|---|---|---|
| **ASSETS** | | | |
| Fund Balance with the U.S. Treasury | $ 436,316,550 | $ 116,793,199 | $ 13,694,351 |
| Cash | 0 | 0 | 0 |
| Fund Balance with U.S. Treasury and Cash | 436,316,550 | 116,793,199 | 13,694,351 |
| Accounts Receivable | 143,277 | 38,057 | 27,361 |
| Interoffice Receivable | 0 | 0 | 0 |
| Advances and Prepayments | 2,406,531 | 337,061 | 50,467 |
| Inventory | 0 | 0 | 0 |
| Property and Equipment, Net | 2,073,297 | 2,162,662 | 411,807 |
| Total Assets | $ 440,939,655 | $ 119,330,979 | $ 14,183,986 |
| **LIABILITIES AND NET POSITION** | | | |
| Accounts Payable | $ 13,866,260 | $ 1,042,432 | $ 147,882 |
| Interoffice Payable | 5,410,295 | 286,833 | 43,242 |
| Capital Lease Liabilities | 0 | 0 | 0 |
| Accrued Funded Payroll and Benefits | 6,811,713 | 0 | 417 |
| Accrued Unfunded Annual Leave and Workers' Compensation | 1,359,052 | 350,313 | 47,174 |
| Unfunded Workers' Compensation Actuarial Liability | 0 | 0 | 0 |
| Other Liabilities | 0 | 0 | 0 |
| Total Liabilities | 27,447,320 | 1,679,578 | 238,715 |
| Unexpended Appropriations | 412,778,090 | 115,839,052 | 13,580,638 |
| Cumulative Results of Operations | 714,245 | 1,812,349 | 364,633 |
| Total Net Position | 413,492,335 | 117,651,401 | 13,945,271 |
| Total Liabilities and Net Position | $ 440,939,655 | $ 119,330,979 | $ 14,183,986 |

| Officers and Legislative Offices | Joint Functions | Eliminations | Combined |
|---|---|---|---|
| $ 312,921,705 | $ 8,938,731 | $ 0 | $ 888,664,536 |
| 0 | 0 | 0 | 0 |
| 312,921,705 | 8,938,731 | 0 | 888,664,536 |
| | | | |
| 174,170 | 718 | 0 | 383,583 |
| 5,806,276 | 0 | (5,806,276) | 0 |
| 1,064,083 | 48,256 | 0 | 3,906,398 |
| 1,099,905 | 0 | 0 | 1,099,905 |
| 15,856,207 | 298,964 | 0 | 20,802,937 |
| $ 336,922,346 | $ 9,286,669 | $ (5,806,276) | $ 914,857,359 |
| | | | |
| $ 7,670,997 | $ 42,961 | $ 0 | $ 22,770,532 |
| 60,166 | 5,740 | (5,806,276) | 0 |
| 0 | 0 | 0 | 0 |
| 69,881 | 0 | 0 | 6,882,011 |
| 2,682,285 | 21,409 | 0 | 4,460,233 |
| 11,458,591 | 0 | 0 | 11,458,591 |
| 12,430 | 0 | 0 | 12,430 |
| 21,954,350 | 70,110 | (5,806,276) | 45,583,797 |
| | | | |
| 303,957,677 | 8,880,882 | 0 | 855,036,339 |
| 11,010,319 | 335,677 | 0 | 14,237,223 |
| 314,967,996 | 9,216,559 | 0 | 869,273,562 |
| $ 336,922,346 | $ 9,286,669 | $ (5,806,276) | $ 914,857,359 |

# U.S. House of Representatives
# Combining Statement of Operations
# for the Year Ended December 31, 2001

| | Members | Committees | Leadership Offices |
|---|---|---|---|
| **REVENUE AND FINANCING SOURCES** | | | |
| Revenue from Operations | | | |
| Sales of Goods | $ 0 | $ 0 | $ 0 |
| Sales of Services to Federal Entities | 0 | 0 | 0 |
| Sales of Services to the Public | 0 | 0 | 0 |
| Interoffice Sales | 0 | 0 | 0 |
| Other Revenue | 0 | 0 | 0 |
| Total Revenue from Operations | 0 | 0 | 0 |
| Financing Sources | | | |
| Appropriations to Cover Expenses: | | | |
| Appropriations Received | 618,180,869 | 144,510,322 | 20,342,428 |
| Appropriations Yet To Be Received | 881,481 | 227,213 | 30,597 |
| Imputed Financing Source | 25,474,359 | 5,614,118 | 756,004 |
| Total Revenue and Financing Sources | $ 644,536,709 | $ 150,351,653 | $ 21,129,029 |
| **EXPENSES** | | | |
| Personnel Compensation | $ 375,301,788 | $ 96,704,680 | $ 13,022,363 |
| Benefits | 132,052,631 | 33,583,534 | 4,570,805 |
| Postage and Delivery | 21,028,738 | 46,890 | 18,567 |
| Repairs and Maintenance | 31,383,800 | 5,484,616 | 1,125,856 |
| Depreciation and Amortization | 1,882,428 | 962,059 | 156,689 |
| Rent, Utilities, and Communications | 19,841,951 | 43,059 | 43,520 |
| Telecommunications | 12,782,674 | 928,469 | 467,758 |
| Supplies and Materials | 8,433,690 | 1,091,998 | 507,513 |
| Travel and Transportation | 16,230,227 | 4,447,201 | 731,647 |
| Contract, Consulting, and Other Services | 4,045,971 | 5,640,592 | 223,059 |
| Printing and Reproduction | 12,547,317 | 78,700 | 18,746 |
| Subscriptions and Publications | 8,908,020 | 1,262,445 | 260,829 |
| Cost of Goods Sold | 0 | 0 | 0 |
| (Gain)/Loss on Disposal of Assets | 97,474 | 77,410 | (18,323) |
| Interest on Capital Leases | 0 | 0 | 0 |
| Total Expenses | $ 644,536,709 | $ 150,351,653 | $ 21,129,029 |
| Excess (Shortage) of Revenue and Financing Sources over Total Expenses | $ 0 | $ 0 | $ 0 |
| **CHANGE IN NET POSITION** | | | |
| Net Position, Beginning Balance | $ 545,886 | $ 1,791,000 | $ 425,697 |
| Adjustments | 0 | 0 | 0 |
| Net Position, Beginning Balance | 545,886 | 1,791,000 | 425,697 |
| Excess (Shortage) of Revenue and Financing Sources over Total Expenses | 0 | 0 | 0 |
| Plus (Minus) Non-Operating Changes | 412,946,449 | 115,860,401 | 13,519,574 |
| Net Position, Ending Balance | $ 413,492,335 | $ 117,651,401 | $ 13,945,271 |

| Officers and Legislative Offices | Joint Functions | Eliminations | Combined |
|---|---|---|---|
| $ 3,123,996 | $ 0 | $ 0 | $ 3,123,996 |
| 363,396 | 0 | 0 | 363,396 |
| 567,690 | 58,122 | 0 | 625,812 |
| 39,651,694 | 0 | (39,651,694) | 0 |
| 532,066 | 0 | 0 | 532,066 |
| 44,238,842 | 58,122 | (39,651,694) | 4,645,270 |
| | | | |
| 112,886,747 | 10,133,022 | 0 | 906,053,388 |
| 1,374,971 | 13,886 | 0 | 2,528,148 |
| 3,481,743 | 343,099 | 0 | 35,669,323 |
| $ 161,982,303 | $ 10,548,129 | $ (39,651,694) | $ 948,896,129 |
| | | | |
| $ 59,973,958 | $ 5,909,984 | $ 0 | $ 550,912,773 |
| 22,403,254 | 2,149,316 | 0 | 194,759,540 |
| 409,246 | 5,322 | 0 | 21,508,763 |
| 35,053,493 | 442,602 | (24,744,988) | 48,745,379 |
| 5,379,725 | 186,056 | 0 | 8,566,957 |
| 788,922 | 0 | 0 | 20,717,452 |
| 13,027,848 | 39,861 | (10,130,538) | 17,116,072 |
| 2,155,744 | 286,421 | (3,887,241) | 8,588,125 |
| 478,590 | 31,699 | 0 | 21,919,364 |
| 15,935,680 | 1,248,624 | (801,639) | 26,292,287 |
| 83,218 | 10,949 | (1,455) | 12,737,475 |
| 653,529 | 178,036 | 0 | 11,262,859 |
| 2,627,355 | 0 | (85,833) | 2,541,522 |
| (189,857) | 1,137 | 0 | (32,159) |
| 2,306 | 0 | 0 | 2,306 |
| $ 158,783,011 | $ 10,490,007 | $ (39,651,694) | $ 945,638,715 |
| | | | |
| $ 3,199,292 | $ 58,122 | $ 0 | $ 3,257,414 |
| | | | |
| $ 712,606,955 | $ 7,411,357 | $ 0 | $ 722,780,895 |
| 0 | 0 | 0 | 0 |
| 712,606,955 | 7,411,357 | 0 | 722,780,895 |
| | | | |
| 3,199,292 | 58,122 | 0 | 3,257,414 |
| (400,838,251) | 1,747,080 | 0 | 143,235,253 |
| $ 314,967,996 | $ 9,216,559 | $ 0 | $ 869,273,562 |

# U.S. House of Representatives
# Combining Statement of Cash Flows
# for the Year Ended December 31, 2001

| | Members | Committees |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Excess/(Deficiency) of Revenue and | | |
| Financing Sources over Expenses | $ 0 | $ 0 |
| Adjustments Affecting Cash Flow | | |
| Appropriations to Cover Expenses | (619,062,350) | (144,737,535) |
| (Increase)/Decrease in Accounts, Interoffice, | | |
| and Appropriations Receivable | 14,031,104 | 998,966 |
| (Increase)/Decrease in Advances and Prepayments | (390,284) | (88,539) |
| (Increase)/Decrease in Inventory | 0 | 0 |
| Increase/(Decrease) in Accounts, Interoffice, | | |
| and Appropriations Payable | 9,675,704 | 43,721 |
| Increase/(Decrease) in Other Accrued Liabilities | 236,242 | (9,431) |
| (Gain)/Loss on Disposal of Assets | 97,474 | 77,410 |
| Depreciation and Amortization | 1,882,428 | 962,059 |
| Net Cash Provided/(Used) by Operating Activities | (593,529,682) | (142,753,349) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchase of Property and Equipment | (2,162,567) | (1,051,388) |
| Net Cash Provided/(Used) by Investing Activities | (2,162,567) | (1,051,388) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Appropriations | 0 | 0 |
| Funds Returned to the U.S. Treasury | 0 | 0 |
| Appropriated Funds Unallocated | 1,032,008,799 | 260,597,936 |
| Principal Payment on Capital Lease Liabilities | 0 | 0 |
| Net Cash Provided/(Used) by Financing Activities | 1,032,008,799 | 260,597,936 |
| Net Cash Provided/(Used) by Operating, | | |
| Investing, and Financing Activities | 436,316,550 | 116,793,199 |
| Fund Balance with U.S. Treasury and Cash, Beginning | 0 | 0 |
| Fund Balance with U.S. Treasury and Cash, Ending | $ 436,316,550 | $ 116,793,199 |

| Leadership Offices | Officers and Legislative Offices | Joint Functions | Eliminations | Combined |
|---|---|---|---|---|
| $ 0 | $ 3,199,292 | $ 58,122 | $ 0 | $ 3,257,414 |
| (20,373,025) | (114,261,718) | (10,146,908) | 0 | (908,581,536) |
| 56,529 | 2,249,687 | (233) | (17,260,675) | 75,378 |
| 1,299 | (266,169) | 8,804 | 0 | (734,889) |
| 0 | (41,244) | 0 | 0 | (41,244) |
| 55,467 | (17,184,719) | (37,511) | 17,260,675 | 9,813,337 |
| (1,148) | 1,127,641 | (889) | 0 | 1,352,415 |
| (18,323) | (189,857) | 1,137 | 0 | (32,159) |
| 156,689 | 5,379,725 | 186,056 | 0 | 8,566,957 |
| (20,122,512) | (119,987,362) | (9,931,422) | 0 | (886,324,327) |
| (75,736) | (8,158,893) | (75,416) | 0 | (11,524,000) |
| (75,736) | (8,158,893) | (75,416) | 0 | (11,524,000) |
| 0 | 1,054,466,053 | 10,098,000 | 0 | 1,064,564,053 |
| 0 | (15,141,802) | (141,259) | 0 | (15,283,061) |
| 33,892,599 | (1,325,237,289) | 1,995,369 | 0 | 3,257,414 |
| 0 | (119,777) | 0 | 0 | (119,777) |
| 33,892,599 | (286,032,815) | 11,952,110 | 0 | 1,052,418,629 |
| 13,694,351 | (414,179,070) | 1,945,272 | 0 | 154,570,302 |
| 0 | 727,100,775 | 6,993,459 | 0 | 734,094,234 |
| $ 13,694,351 | $ 312,921,705 | $ 8,938,731 | $ 0 | $ 888,664,536 |

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# Independent Auditor's Report on Compliance with Laws and Regulations

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COTTON & COMPANY LLP
auditors ◆ advisors
DAVID L. COTTON, CPA, CFE, CGFM ◆ CHARLES HAYWARD, CPA, CFE, CISA ◆ MICHAEL W. GILLESPIE, CPA, CFE ◆ CATHERINE L. NOCERA, CPA, CISA
MATTHEW H. JOHNSON, CPA, CGFM ◆ SAM HADLEY, CPA, CGFM ◆ COLETTE Y. WILSON, CPA ◆ ALAN ROSENTHAL, CPA

# INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

To the Inspector General
U.S. House of Representatives

Cotton & Company LLP has audited the Consolidated Statement of Financial Position of the U.S. House of Representatives as of December 31, 2001, and 2000, and the related Consolidated Statements of Operations and Cash Flows for the years then ended. We conducted our audit in accordance with generally accepted auditing standards and with *Government Auditing Standards*, issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, rules, and regulations is the responsibility of the Members and administrative management of the House. As part of obtaining reasonable assurance about whether the consolidated financial statements are free of material misstatement, we performed tests of House compliance with certain provisions of laws and House rules and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Providing an opinion on compliance with those provisions was not, however, an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests of compliance disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Compliance with laws, rules, and regulations for the House is significantly different than it is for Executive Branch departments and agencies. First, many of the laws that apply to the Executive Branch, such as the Federal Managers' Financial Integrity Act of 1982, the Government Management Reform Act of 1994, and the Chief Financial Officers Act of 1990, do not apply to the House. Second, Executive Branch departments and agencies are subject to regulations that implement their authorizing statutes and to regulations imposed by other agencies, such as the Office of Management and Budget and Office of Personnel Management; the House is subject to specific laws and its own rules and to regulations contained in its *Members' Congressional Handbook and Committees' Congressional Handbook*.

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The sole, official purpose of this report is for informational use by Members of the U.S. House of Representatives, the Office of the Chief Administrative Officer, and the Office of Inspector General. It is not intended to be, and should not be, used by anyone other than these specified parties in an official capacity. This report is, however, available to the public for informational purposes only.

COTTON & COMPANY LLP

Matthew H. Johnson, CPA

May 31, 2002
Alexandria, Virginia

# Independent Auditor's Report on Internal Control

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COTTON & COMPANY LLP

auditors ◆ advisors

DAVID L. COTTON, CPA, CFE, CGFM ◆ CHARLES HAYWARD, CPA, CFE, CISA ◆ MICHAEL W. GILLESPIE, CPA, CFE ◆ CATHERINE L. NOCERA, CPA, CISA
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# INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

To the Inspector General
U.S. House of Representatives

Cotton & Company LLP has examined management's assertion included in the accompanying House of Representatives Management Report on Internal Control. In that report, management asserted that the U.S. House of Representatives maintained effective internal control over safeguarding of assets, compliance with laws and regulations, and financial reporting as of December 31, 2001, based on the *Standards for Internal Control in the Federal Government*, issued by the Comptroller General of the United States. Management is responsible for maintaining effective internal control over safeguarding of assets, compliance with laws and regulations, and financial reporting. Our responsibility is to express an opinion on management's assertion based on our examination.

We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants (AICPA) and *Government Auditing Standards*, issued by the Comptroller General of the United States and, accordingly, obtained an understanding of internal control over safeguarding of assets, compliance with laws and regulations, and financial reporting; tested and evaluated the design and operating effectiveness of internal control; and performed other procedures considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Because of inherent limitations in internal control, misstatements, losses, or noncompliance may nevertheless occur and not be detected. Also, projections of any evaluation of internal control over financial reporting to future periods are subject to the risk that internal control may become inadequate as the result of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assertion that the House has maintained effective internal control over safeguarding of assets, compliance with laws and regulations, and financial reporting as of December 31, 2001, is fairly stated, in all material respects, based

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on *Standards for Internal Control in the Federal Government*, issued by the Comptroller General of the United States.

We noted, however, certain matters involving internal control and its operations that we consider reportable conditions under standards issued by AICPA. Reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect an agency's ability to record, process, summarize, and report financial data consistent with management assertions in the financial statements. Those conditions are:

- The staff payroll system is obsolete and needs to be replaced.

- The House lacks sufficient information with which to manage and maintain accountability over its property and equipment.

- Financial management continues to be hampered by inadequate systems, resources, and procedures.

- Weaknesses over financial information systems reduce the integrity of financial data and reporting.

Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in an amount that would be material in relation to the financial statement being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We consider none of these reportable conditions to be material weaknesses.

Additional details on each of these reportable conditions are included in this report.

The sole, official purpose for this report is for informational use by Members of the U.S. House of Representatives, the Office of the Chief Administrative Officer, and the Office of Inspector General. It is not intended to be, and should not be, used by anyone other than these specified parties in an official capacity. This report is, however, available to the public for informational purposes only.

COTTON & COMPANY LLP

Matthew H. Johnson, CPA

May 31, 2002
Alexandria, Virginia

# STATUS OF INTERNAL CONTROL WEAKNESSES
# CALENDAR YEAR 2001 FINANCIAL STATEMENT AUDIT

Cotton & Company LLP assessed the current status of weaknesses identified in the Independent Auditor's Report on Internal Control for 2000. The House continues to make progress toward implementing recommendations for each condition. Certain weaknesses still exist; therefore, we recommend that the Chief Administrative Officer (CAO) continue to implement past recommendations. The remainder of this report presents a summary of the status of internal control weaknesses and detailed discussions and recommendations for each.

## Criteria

In determining the current status of these internal control weaknesses, we applied the following criteria:

| | |
|---|---|
| **Substantial Progress** | New financial system and/or new policies and procedures put in place ***substantially*** address the ***more significant*** recommendations made in the prior audit. |
| **Some Progress** | New financial system and/or new policies and procedures put in place ***partially*** address the ***more significant*** recommendations made in the prior audit. |
| **Limited Progress** | Steps taken to address ***less significant*** recommendations; more significant recommendations addressed only with ***proposals*** or ***remain open***. |
| **New Condition** | No action has been taken; newly identified weakness. |

Our assessment of the status of prior recommendations was based on a review of the House's progress toward implementing the recommendations. The following criteria were used to assess that progress:

| | |
|---|---|
| **Closed** | The House fully implemented recommended corrective actions, or changes in House operations remedied or eliminated the need for recommended corrective action. |
| **Substantial Progress** | The House has ***substantially*** addressed the ***more significant*** aspects of the recommendation. |
| **Some Progress** | The House has ***partially*** addressed the ***more significant*** aspects of the recommendation. |
| **Limited Progress** | The House has made progress on the ***less significant*** aspects of the recommendation. |
| **Not Started** | The House has taken ***no action*** to implement the recommendation. |

The status of the four existing weaknesses is shown in Figure 1; a detailed discussion of each follows.

**Figure 1: Status of Internal Control Weaknesses**

| | Status as of May 31, 2002 | | | |
|---|---|---|---|---|
| **Weakness** | **Substantial Progress** | **Some Progress** | **Limited Progress** | **New Condition** |
| 1. The staff payroll system is obsolete and needs to be replaced. (***Reportable Condition***) | | **X** | | |
| 2. The House lacks sufficient information with which to manage and maintain accountability over its property and equipment. (***Reportable Condition***) | **X** | | | |
| 3. Financial management continues to be hampered by inadequate systems, resources, and procedures. (***Reportable Condition***) | **X** | | | |
| 4. Weaknesses over financial information systems reduce the integrity of financial data and reporting. (***Reportable Condition***) | | **X** | | |

## DISCUSSION OF INTERNAL CONTROL WEAKNESSES

**Weakness 1: The Staff Payroll System Is Obsolete And Needs To Be Replaced**

**Summary Status: Reportable Condition**
**Prior Condition**
**Some Progress**

During 1999, the House implemented a new Members' payroll system and accepted proposals to replace its staff payroll system. In Calendar Year (CY) 2000, the CAO submitted the selected proposal to the Committee on House Administration (CHA) for review and approval. CHA approved the proposal on June 5, 2001. As of the date of this report, however, the system was still in the design phase.

The staff payroll system remains inefficient and technologically obsolete. This system requires Office of Human Resources staff to regularly make manual calculations and adjustments to process the staff payroll. Furthermore, inadequacies in this system result in numerous supplemental payments and overpayments made throughout the year.

The following inefficiencies in the staff payroll system continue to exist:

- When an employee changes from non-permanent to permanent status in any given month, the staff payroll system automatically calculates the Federal Employees' Retirement System (FERS) deduction for the entire month, including the portion of the month in which the individual was a non-permanent employee. This necessitates a manual adjustment to the system to reverse the incorrect FERS deduction.
- The staff payroll system does not perform all necessary payroll calculations; therefore, manual calculations are needed for certain actions, such as earned income credits, garnishments, deductions for retroactive adjustments, multiple annuitants, part-time child care employees, retirement contributions, and the government portion of FERS.
- When adjustments to the staff payroll system have been made (handwritten checks, voids, adjustments, and suspense items), a second report is run. Payroll counselors manually compare the report to an Excel spreadsheet and make adjustments before the payroll summary is provided to Office of Finance.
- Legislation requires the House payroll to be paid on the last working day of the month, except for December, when payroll is paid on December 20th. To pay the staff on the last working day of the month, Human Resources personnel must prepare staff payroll check requests before the end of the month for work completed during that month. As a result, salary changes and

notices of new employees are often submitted to Human Resources after the published payroll deadline.

In CY 2001, supplemental payroll changes resulted in 4,206 supplemental paychecks for $4,622,516 in underpayments to staff. In addition, refunds from staff resulting from overpayments totaled $34,180 at yearend. Of this amount, $9,351 remained outstanding as of April 21, 2002.

***Recommendation***

This audit recommendation was made in a past Office of Inspector General (OIG) audit report. Based on test results from our audit, we agree that the weakness underlying this recommendation still exists, and CAO should continue to implement policies and procedures necessary to resolve it.

| Recommendation | Status of Recommendation | Management Response |
|---|---|---|
| Report No. 99-HOC-07 1.1<br><br>Replace the staff payroll and human resources systems ensuring that: (1) system inefficiencies are addressed and (2) adequate controls are established to manage and account for annual and sick leave for applicable employees. | Status: Some Progress<br><br>CHA voted on the proposal to replace the staff payroll system on June 5, 2001, and adopted it as submitted by CAO.<br><br>The House is moving forward with implementing the new system for processing Non-Member payroll.<br><br>Key staff members have attended training seminars. | CONCUR<br><br>The House has received and reviewed proposals for the new staff payroll system. The CAO submitted the selected proposal and recommendation for award to the Committee on House Administration (CHA) for their review and approval. The CHA approved the recommendation on June 5, 2001. The CAO received approval to release the funding for the system implementation from the Subcommittee on Legislative on June 27, 2001, and a contract for payroll/HR implementation was awarded to Projectivity, Inc. of Rockville, MD on August 02, 2001. The selected Commercial-Off-The-Shelf application chosen for implementation was Lawson Software's Human Capital Management (HCM) Suite.<br><br>The awarded contract has two distinct phases. The first (or Discovery) phase is for re-validation of requirements and documentation of workflow processes. Another component of Phase 1 involves identification of GAP issues and costs that exist between the House's processes and requirements, and the capabilities of the Lawson HCM |

| Recommendation | Status of Recommendation | Management Response |
| --- | --- | --- |
| | | application. Phase 2 is contractually structured as an option that can only be exercised by the House. If exercised, Phase 2 authorizes acquisition of the necessary hardware and software, and implementation of the new Lawson HCM suite.<br><br>Phase 1 has been completed and a recommendation to move forward with Phase 2 has been submitted through CAO senior management to CHA. Approval from CHA to initiate Phase 2 was received July 26, 2002. Based on this, the anticipated "go live" implementation date for the Lawson HCM is April 01, 2004.<br><br>The implementation of the new Lawson system will address existing system inefficiencies and manual processes, and will create controls for management of annual and sick leave for applicable employees. |

**Weakness 2: The House Lacks Sufficient Information With Which To Manage And Maintain Accountability Over Its Property And Equipment**

**Summary Status: Reportable Condition**
**Prior Condition**
**Substantial Progress**

During CY 2001, the House made some progress in its efforts to resolve weaknesses related to accountability over property and equipment. Finance refined its formal policies and procedures for accounting for capitalized equipment using the legacy systems. These policies and procedures resulted in correctly identifying the proper Budget Object Codes (BOCs) for capitalized equipment and ensured all equipment was properly recorded with the correct in-service dates and estimated life. Reconciliation of physical inventories to the legacy property systems and to electronic spreadsheets provided detailed records of capitalized equipment. However, detailed records of property transfers, adjustments, and disposals were incomplete. The detailed records contained accurate depreciation calculations, disposal information, and recognition of losses on disposals; yet, summary schedules misreported some of the information. For example, detailed disposal records would be recorded as transfers and vice versa on the summary schedules.

The House began implementation of the CY 2000 recommendation to establish quality control over the electronic spreadsheets. While the House was diligent in attempting to honor management's request to link detailed schedules to summary schedules, the schedules were not reviewed for quality control, and, as a result, some summary schedules included unlinked and unsupported figures.

Even with implementation of these improvements, the House's ability to efficiently manage and adequately account for its property and equipment continues to be hampered by its lack of a centralized and integrated property system. Implementation of the new Fixed Asset and Inventory Management System (FAIMS) is scheduled for August 2002. Until FAIMS is fully operational, House efforts to effectively maintain control over its capitalized and non-capitalized property and equipment will be hindered by the lack of centralized accounting control over its capitalized property and equipment. In addition, responsibility to account for such items is dispersed among several offices within CAO.

Electronic spreadsheets used to track property and equipment balances are manually adjusted for financial reporting, which is a labor-intensive process. At present, two Finance staff members are responsible for preparing and reconciling property and equipment (PE) data in Federal Financial System (FFS) and for financial reporting. Both participate in preparing and reconciling each PE classification, thus creating instances where one staff member will perform an adjustment, but the other is unaware of the adjustment or why it was performed. The House's accountability over PE could be improved by assigning certain PE classifications to each staff member to fully reconcile without the assistance of the other staff member. This will improve individual accountability, because each staff member is fully accountable for reconciling and reporting the PE classes that have been assigned to them.

House offices that account for most of the property and equipment are:

- Office Systems Management (OSM), which is responsible for computers, copiers, and other office equipment used by Members, Committees, and House Officers.

- House Information Resources (HIR), which is responsible for computer equipment that supports the House's central electronic data processing environment and telecommunications equipment used by Members (both in their Washington, DC, and district offices), Committees, and House Officers.

Neither of these offices maintains property ledgers that comply with all applicable requirements of the Joint Financial Management Improvement Program, such as the requirement to fully integrate their subsidiary systems with House general ledger system. OSM maintains property information in a database separate from FFS, and HIR maintains its property information in an electronic database. This information, along with property information from other House offices, is provided to and tracked by Finance on electronic spreadsheets. Finance summarizes these spreadsheets to develop amounts to be recorded in the financial statements.

We obtained and reviewed detail and summary spreadsheets used to track capitalized property and equipment to ensure that adjustments made at the detail level were carried forward to the summary, summary totals tied to detail totals, and formulas were properly calculated. Additions, disposals, and transfer events reported on the summary schedules did not always contain cell references to the detailed subsidiary spreadsheets. Although, the detailed electronic subsidiary spreadsheets are used by Finance to track property and equipment are accurate, they are not reconciled or carried forward to the summary schedules.

For example, summary schedules are considered the source for the Trial Balance. Summary schedules for Work In Progress (WIP), Office Equipment, and Accumulated Depreciation - Office Equipment, did not, however, agree to the general ledger (G/L) Trial Balance. WIP detail records showed a reclassified $29,760 of property. While the property amount in the G/L was updated accordingly, the WIP summary schedule was not. As a result, an adjustment of $29,760 to decrease WIP was made to the financial statements. Accumulated Depreciation - Office Equipment, was overstated due to an in-service date adjustment made to the subsidiary records but not carried forward to Hyperion (Finance reporting software). As a result, an adjustment of $31 representing an increase in Accumulated Depreciation was made.

Our review examined three House entities that represent 95% of property procurement, disposal, and transfer activity in CY 2001: Members, Committees, and HIR. Reconciliation of property detailed spreadsheets to property summary files resulted in 50 individual findings (21 for Members, 15 for Committees, and 14 for HIR). The 50 findings together represented an adjustment of $835 to decrease net book value. These 50 items were the result of unsupported figures contained in 27 summary schedules. Of the 50 items, 47 were resolved during the testing period. Once FAIMS is operational, and property accounting records are centralized and integrated, electronic spreadsheets will not be needed. Until that time, we recommend that Finance continue to reconcile detailed spreadsheets monthly with summary schedules and be alert for methods to improve their accuracy.

We noted the following deficiencies with the accounting treatment of certain assets, or individual transactions, which required adjustments:

- **Some property in service is identified as disposed.** We reviewed Finance's list of disposed property and noted that some property recorded and reported as disposed was still in service. Finance was advised that these items had been disposed of and recorded their disposal accurately.

  We selected 25 items of the 874 items reported as disposed by HIR, and found that 2 items were actually still in service, although fully depreciated. The first exception represents a correction of property classification. The property was recorded on two summary schedules (for 1754 and 1751 G/L accounts). The property was disposed of from the 1754 schedule, but was kept on the 1751 schedule for accurate G/L classification. This item should have been reported as an adjustment, not a disposal.

  The second exception is an item reported as disposed, but is still in service. As a result, the notes to the financial statement were adjusted to reflect a $1,760 increase to the cost and accumulated depreciation amounts. We also noted several items reported as disposed during the year and then added back later in the year. This is the result of poor communication between House entities and Finance.

- **Gains were not properly recognized.** In CY 2001, the House recorded gains associated with trade-in allowances for capitalized property only. During our sample testing of 45 capital acquisitions, of the 221 purchased during 2001, we noted one in which trade-in allowances resulted in gains that were not recorded. As a result, a $245,831 adjustment to recognize gain on disposal of assets was made. We also noted an additional depreciation expense. When disposing of an item in CY 2001, additional depreciation expense was taken for an item with a net book value (NBV) of zero on December 31, 2000. The additional depreciation resulted in NBV of a negative $1,844. The trade-in allowance for the item was $18,335, for a recognized gain of $20,179. As a result, an adjustment of $1,844 was made to reduce the depreciation expense and gains.

- **Gains and losses for non-capitalized property and equipment are not properly recognized.** The House does not track or record trade-in allowances and recognize gains for non-capitalized property. When FAIMS is fully operational, however, the House will be able to effectively track and record trade-in allowances and associated gains for capitalized and non-capitalized property and equipment. At that time, gains and losses during acquisition or disposal should be recognized for all property.

- **Property reporting is inconsistent**. The House currently does not have a reporting policy for AO513 property. AO513 is the organization code identifying property procured by OSM and in the custody of Members and Committees. This property was paid for by OSM and the Members and Committees reimburse OSM through installment payments during a 2-year period. While the net effect on the consolidated financial statements was zero, property balances are not allocated correctly at the organization level in the combining statements. An adjustment of $894,954 was made to re-allocate this property from OSM to Members and Committees.

***Recommendations***

These audit recommendations were made in a past OIG audit report. Based on test results from our audit, we agree that the weakness underlying this recommendation still exists, and CAO should continue efforts to implement a new property system:

| Recommendation | Status of Recommendation | Management Response |
|---|---|---|
| Report No. 95-HOC-22, 4.1<br><br>Ensure that the new financial management system and subsidiary systems are capable of accumulating and providing information with respect to property and equipment, including:<br>• Cost or value.<br>• Description and acquisition date.<br>• Useful life and depreciation method and amount.<br>• Scheduled replacement date.<br>• Location.<br>• Disposal date. | Status: Some Progress<br><br>The House continues to work with its contractor toward FAIMS implementation. The current implementation date for FAIMS is August 2002.<br><br>Until FAIMS is implemented and fully operational, Finance should continue to perform monthly reconciliations of the detailed spreadsheets with summary schedules to assure accuracy. | CONCUR<br><br>The House's new Fixed Asset and Inventory Management System (FAIMS), as implemented August 2002, maintains detailed information on property and equipment, including the requirements listed above. The system does not track assets by scheduled replacement date, but instead notifies users when an asset is nearing the end of its useful life. Summary information on property and equipment is maintained in the Federal Financial System (FFS), the House's official accounting system of record. As of May 31, 2002, the House had successfully performed a test conversion of all Office Systems Management (OSM) and House Information Resources (HIR) legacy system data into FAIMS, and had calculated accumulated depreciation on all capital assets |

| Recommendation | Status of Recommendation | Management Response |
|---|---|---|
| | | converted into FAIMS. The converted data and associated accumulated depreciation was reconciled with the acquisition cost data maintained in the legacy systems, the manual spreadsheets maintained in the Office of Finance, and FFS. End-to-end testing with FFS and Procurement Desktop (PD) was completed in December 2001 and demonstrated the accurate recording of cost information from obligation of the funds to receipt of the asset, and the successful transmission of asset disposal and transfer information from FAIMS to FFS. The CAO believes they have taken appropriate steps to close this recommendation. |

Until FAIMS is fully implemented, the weakness underlying these recommendations still exists, and the CAO should continue implementation to ensure proper recording and reporting of property and equipment.

| Recommendation | Status of Recommendation | Management Response |
|---|---|---|
| Report No. 01-HOC-06, 2.1<br><br>Strengthen and enforce its policies for properly determining, calculating, and recording all costs associated with the purchase trade-in or disposal of capitalized assets. | Status: Some Progress<br><br>Finance has responded to this recommendation by attempting to capture gain and loss information from the trade-in and disposal of property, as noted on the financial statements. We noted during substantive testing, however, that a gain from a trade-in had gone unrecorded. Finance has developed an instructional guide, *FAIMS Accounting Reference Guide*, for use by property custodians in determining asset acquisition and disposal costs, and the determining treatment on trade-in values. The guide is dated September 30, 2001; distribution and training occurred during July 2002. | CONCUR<br><br>Finance submitted to the OIG on September 30, 2001, a copy of an instructional guide developed for property custodians to use in determining asset acquisition and disposal costs and the treatment of trade-in values. Finance completed training on this guide for all FAIMS users on July 15, 2002. The training also included a review of Budget Object Class codes used for capital and non-capital purchases, FAIMS general ledger accounts, and House asset policy and procedures. The CAO believes they have taken appropriate steps to close this recommendation. |
| Report No. 01-HOC-06, 2.2<br><br>Establish quality control procedures over electronic | Status: Limited Progress<br><br>Finance has implemented monthly reconciliations of PE accounts, which | CONCUR<br><br>Finance has developed a template of detailed schedules that clearly |

| Recommendation | Status of Recommendation | Management Response |
|---|---|---|
| spreadsheets used for property and equipment that will include reconciliation of all supporting documentation to summary schedules used for financial reporting. Finance should be able to clearly show the components of property and equipment (additions, deletions, and other adjustments) and provide accurate, detailed schedules to support each of the totals and show how they tie to general ledger accounts. | aids in resolving discrepancies more quickly than attempting to resolve at yearend. Finance did link most of the detail support to summary schedules.<br><br>Finance made adjustments to reconciliation spreadsheets, which were intended to assist the auditors during the audit process, but resulted in making the process more cumbersome. Finance performed nine monthly reconciliations during CY 2001. A complete review of all summary-to-detail files required the review of approximately 1,450 Excel worksheets.<br><br>Finance did not prepare detailed schedules that clearly show all PE transactions for the year. A roll-forward would clearly show all property that agrees to the beginning balance (the prior year financial statements), detail of all additions, detail of all disposals, detail of all adjustments, and detail for all transfers, and then ultimately the ending balance to be reported on the financial statements. | show all property and equipment transactions for the calendar year. Separate spreadsheets have been created that show yearly transactions at the detail level for all House property and equipment purchases, additions, transfers-in, transfers-out, disposals, and adjustments. These spreadsheets link to lead schedules that summarize the above information by House reporting entity and general ledger account. The lead schedules will show a clear audit trail from the property and equipment amount disclosed on the previous year's financial statements balance to the amount disclosed on the current year's financial statements. The CAO believes they have taken appropriate steps to close this recommendation. |

To assist in correcting deficiencies, management should also revise its current policies and procedures to ensure accurate treatment of property and equipment transactions beyond implementation of FAIMS. We recommend that the Chief Administrative Officer:

| Recommendation | Status of Recommendation | Management Response |
|---|---|---|
| 1. Divide the reconciliation responsibilities by G/L account, making one individual responsible for reconciling the property account from legacy system and detail/summary schedules to FFS. | New Recommendation | CONCUR<br><br>Finance has taken action to divide the property and equipment reconciliation responsibilities by general ledger account. The responsibility for reconciling both the cost and accumulated depreciation of specific general accounts has been divided between two individuals. In addition, one individual is responsible for reconciling both the cost and accumulated depreciation general ledger |

| Recommendation | Status of Recommendation | Management Response |
| --- | --- | --- |
| | | accounts from the legacy system to detail/summary schedules to FFS, and preparing adjusting entries where required. This should improve the House's accountability over property and equipment because individual staff members will be responsible for the ending balances presented on the financial statements. The CAO believes we have taken appropriate steps to close this recommendation. |
| 2. Prepare separate worksheets for each PPE classification that detail all additions, a separate worksheet for all disposals, and a separate worksheet for all other adjustments by PE classification. | New Recommendation | CONCUR<br><br>Finance has developed a template of detailed schedules that show all property and equipment transactions for the calendar year by classification (3, 5, 7 and 10 year property), House reporting entity, and general ledger account. Separate spreadsheets have been created that show yearly transactions at the detail level for all House property and equipment purchases, additions, transfers-in, transfers-out, disposals, and adjustments. These spreadsheets link to lead schedules that summarize the above information by House reporting entity and general ledger account. These lead schedules will show a clear audit trail from the property and equipment amount disclosed on the previous year's financial statements balance to the amount disclosed on the current year's financial statements. The CAO believes they have taken appropriate steps to close this recommendation. |
| 3. Perform a quality assurance review of all PE classifications before preparation of the financial statements. | New Recommendation | CONCUR<br><br>Finance will perform a quality assurance review of all PE classifications by January 31, 2003, before preparation of the House's 2002 annual financial |

| Recommendation | Status of Recommendation | Management Response |
|---|---|---|
| | | statements begins. This review will ensure that lead schedules are reconciled to detailed schedules. Finance has developed a template of detailed and lead schedules that will clearly show all House property and equipment transactions. The detailed schedules link to lead schedules that summarize PE information by House reporting entity and general ledger account. These lead schedules will show a clear audit trail from the property and equipment amount disclosed on the previous year's financial statements balance to the amount disclosed on the current year's financial statements. The detailed schedules will be reconciled to the lead schedules and vice versa. These schedules will then be reconciled to the financial statements accounting software and to FFS. In addition, Finance will perform a periodic sample to ensure the accuracy of PE classifications. |

**Weakness 3:** **Financial Management Continues To Be Hampered by Inadequate Systems, Resources, and Procedures**

**Summary Status:** **Reportable Condition**
**Prior Condition**
**Substantial Progress**

In CY 2001, the House continued to improve its financial management:

- Procurement Desktop (PD) continued to add value to financial management, allowing the House to capture contract, purchase order, and receipt-of-goods data and compare orders against available budgets within various offices.

- Financial Counseling within Finance developed and provided extensive training on the "BOC Style Guide". This document was distributed to all House offices entering transactions into FFS and required use of BOCs to ensure consistency.

- Finance refined the Annual Financial Statement Compilation Procedures, resulting in the timely delivery of financial statements and substantially fewer adjustments.

Weaknesses that affect the House's ability to prepare accurate financial statements still, however, exist. For continued improvement to House financial management, we recommend that CAO continue to implement corrective actions necessary to resolve the two remaining recommendations.

Financial statement compilation depends heavily on information maintained on either computer-generated spreadsheets or non-integrated financial systems. As a result, a significant number of calculations and adjustments, which occur outside of FFS, must be completed to compile annual financial statements. During CY 2001, Finance reduced the number of Hyperion adjustments and reclassifications needed to prepare draft financial statements for the current audit from 139 in CY 2000 to 71. Of these, 30 were for property alone.

***Recommendations***

These audit recommendations were made in past OIG audit reports. Based on test results from our audit, we agree that the weakness underlying these recommendations still exist, and to resolve it, CAO should continue to implement policies and procedures as necessary.

| Recommendation | Status of Recommendation | Management Response |
|---|---|---|
| Report No. 95-HOC-22, 2.2<br><br>Ensure that the new financial management system has the | Status: Substantial Progress<br><br>The House continues to move toward FAIMS implementation. Contract, | CONCUR<br><br>FFS verifies funds availability any time an obligating or payment |

| Recommendation | Status of Recommendation | Management Response |
|---|---|---|
| capability to:<br><br>• Compare orders against available budget by office.<br>• Prompt offices when orders have not been received or when bills have not been paid after a specified period of time. | purchase order, and receiving information captured in PD, combined with payment information recorded in FAIMS and passed through to FFS, will allow users to identify orders that have been received and identify bills not paid in a timely manner. | document is processed through the system. The House has fully implemented Procurement Desktop (PD), which also utilizes this functionality to check funds availability when processing requisitions, obligations or receivers. PD passes the receipt of goods and services data to FFS. With the August 2002 implementation of FAIMS, PD can now pass information for assets to FAIMS. The implementation of accrual accounting in 2001 allows the House to manage items received but not yet paid. The Office of Finance generates unliquidated obligation reports from FFS to identify open obligations. These reports are distributed to all CAO units monthly for review and follow up. Additionally, accounts payable aging reports are generated from FFS and distributed to all CAO units monthly. These reports help units to identify and track outstanding accounts payable. The CAO believes they have taken appropriate steps to close this recommendation. |
| Report No. 01-HOC-06, 3.1<br><br>Ensure that the new financial management system has the capability to:<br><br>• Generate annual financial statements.<br>• Integrate information for other House financial systems. | Status: Limited Progress<br><br>The House has developed requirements for replacement of the financial management system. Selection of a vendor and implementation of a replacement system are still not on the short-term horizon.<br><br>Numerous manual calculations are still necessary to perform routine accounting functions, including fixed-asset tracking and payroll processing. | CONCUR<br><br>The House has developed requirements for a replacement financial management system that include the capability to generate annual financial statements and maximize integration. The House completed a market analysis of viable systems by December 2001. Prior to the implementation of a replacement system, numerous manual calculations currently performed by the Office of Finance will be eliminated with the implementation of FAIMS and the new payroll system, mentioned above in this response to Weakness No. 1. The FAIMS |

| Recommendation | Status of Recommendation | Management Response |
|---|---|---|
| | | system, as implemented August 2002, interfaces with FFS and eliminates the need for the Office of Finance to manually enter asset depreciation, transfers and disposals into FFS. FAIMS will also eliminate the requirement for the Office of Finance to track capital assets and cumulative depreciation on manual spreadsheets. The new payroll system, scheduled to be implemented late in 2004, will have the capability to accrue personnel benefits currently calculated manually by Finance. |

**Weakness 4: Weaknesses Over Financial Information Systems Reduce The Integrity Of Financial Data And Reporting**

**Summary Status: Reportable Condition**
**Prior Condition**
**Some Progress**

As part of the CY 2001 audit, we reviewed controls over information systems that either process or report information for the House's annual financial statements. We relied upon *Control Objectives for Information and Related Technology* (COBIT) for review criteria. COBIT provides a framework to help meet multiple needs of management by bridging gaps between business risks, control needs, and technical issues. It provides good practices across a domain and process framework and presents activities in a manageable and logical structure. The COBIT mission is to research, develop, publicize, and promote an authoritative, up-to-date, international set of generally accepted information technology (IT) control objectives for daily use by business managers and auditors. The House's CAO has accepted COBIT as an authoritative source of IT control and guidance.

In conducting our review of internal control over IT, we reviewed controls in the following six categories:

- **Entity-wide security program planning and management** to provide a framework and continuing cycle of activity for managing risk, developing security policies, assigning responsibilities, and monitoring the adequacy of computer-related controls.
- **Access controls** to limit or detect access to computer resources (data, program, equipment, and facilities), thereby protecting these resources against unauthorized modification, loss, and disclosure.
- **Application software development and program change controls** to prevent implementation of unauthorized programs or modifications to existing programs.
- **System software controls** to limit and monitor access to powerful programs and sensitive files that control computer hardware and secure applications supported by the system.
- **Segregation-of-duty controls** to provide policies, procedures, and an organizational structure to prevent one individual from controlling key aspects of computer-related operations and thereby conducting unauthorized actions or gaining unauthorized access to assets or records.
- **Service continuity controls** to ensure that when unexpected events occur, critical operations continue without interruption or are promptly resumed, and critical and sensitive data are protected from destruction.

The audit included a review of prior-year recommendations and management actions to address the recommendations. We noted weaknesses in five of the six areas reviewed. We did not identify any weakness in the area of System Software Controls. Although none of the five weaknesses by themselves represents a reportable condition, these weaknesses collectively comprise a reportable condition. To correct the identified weaknesses, two prior recommendations remain open and we made seven new recommendations.

The following is a discussion of the weaknesses in each of the categories.

**Entity-Wide Security Program Planning and Management**

We have identified two weaknesses in the area of entity-wide controls: 1) annual security awareness training, and 2) independent assurance of security controls at the U.S. Department of the Interior's National Business Center (NBC).

Personnel do not receive annual security awareness training. New employees are required to attend a security awareness class as part of the employee orientation process, but do not receive refresher training. Without adequate and suitable security training, management increases the risks that personnel will acquire undesirable security habits or be unaware of new security requirements, thus resulting in unintentional performance of unauthorized activities that jeopardize data integrity and confidentiality. COBIT suggests that all personnel be trained and educated in system security principles, including periodic updates with special focus on security awareness and incident handling.

We recommend that the Chief Administrative Officer:

| Recommendation | Status of Recommendation | Management Response |
|---|---|---|
| 1. Revise the information security policy to require all personnel with access to financial systems attend security awareness training during orientation and annual refresher training thereafter. | New Recommendation | CONCUR<br><br>The CAO does include a security awareness-training segment for all CAO employees during its new employee orientation briefings. These briefings are scheduled throughout the year.<br><br>Additionally, a CAO policy has been written that requires all CAO personnel with access to House information systems to attend annual security awareness refresher training.<br><br>Further, users of CAO supported financial systems (e.g., Procurement Desktop) that work in offices external to the CAO will |

| Recommendation | Status of Recommendation | Management Response |
|---|---|---|
| | | annually be identified and encouraged to attend the security awareness refresher training. The CAO believes they have taken appropriate action to close this recommendation. |

Finance is not obtaining independent assurance that the U.S. Department of the Interior's NBC is complying with legal and regulatory requirements to properly secure House financial data and to prevent and detect unauthorized activities such as modification of data. Further, CAO policies and procedures do not require third-party information service providers to obtain an independent assurance review. Independent assurance should attest to the adequacy of controls to provide reliable and complete processing of data and the adequacy of the security controls to safeguard and protect House financial data from unauthorized activities. COBIT recommends that management obtain independent assurance of the effectiveness of IT services and contractual commitments on a routine cycle.

We recommend that the Chief Administrative Officer:

| Recommendation | Status of Recommendation | Management Response |
|---|---|---|
| 2. Modify the contract with NBC to require it to obtain an annual independent assurance of the effectiveness of internal control and security control to adequately protect and safeguard the House financial data and software and the effectiveness of internal control to provide complete processing and continuity of service. Additionally, modify the contract to require NBC to provide CAO with the results of the independent assurance and to provide quarterly briefings on the progress being made to resolve control weaknesses. | New Recommendation | CONCUR<br><br>Finance has taken the steps to include wording in the Service Level Agreement with NBC for FY 2003 and beyond that indicates NBC will have an independent audit each year of the data center operations, that the House will receive a copy of the results within two weeks after NBC receives the results, that the House will receive a mitigation plan with the results of the audit and that we will receive at least quarterly updates on status and progress on any activities at NBC to mitigate or prevent internal control problems and improvements to security.<br><br>Finance received the latest status report from NBC on efforts to make recommended improvements from an SAS 70 audit performed by KPMG which |

| Recommendation | Status of Recommendation | Management Response |
|---|---|---|
| | | was concluded in January 2002. In addition, representatives from the Office of Finance and HIR met with NBC to go over the status of these findings and other work ongoing at NBC to improve operations and internal controls. The CAO believes they have taken appropriate action to close this recommendation. |

**Access Controls**

HIR's Information System Security Office (ISSO) developed and issued policies and standards for system and security administrative activities. Individual offices are responsible, however, for establishing procedures to comply with the policies. In February 2002, The Technology Coordination Task Force approved the *House Information Resources Policy - User Account Management for CAO Supported Information Technology Systems*. This policy establishes rules for processing departing employees, contractors, and interns to ensure the timely and effective management of user accounts for CAO supported IT systems. The policy does not address all the specific requirements for user account administration and management. In conducting our work, we found that the following procedures were not being performed properly, uniformly, and consistently for financial systems and network components used to access the financial systems:

- Establishing and removing user accounts.
- Creating user accounts with standard naming conventions.
- Monitoring security activities.

As stated above, the new policy addresses the removal of user accounts associated with CAO personnel whose employment is being terminated.

During our review, we tested users' accounts for the network components used to access the financial systems and applications. Based on our review of accounts tested against an employee roster and listing of contractor employees, we noted 235 accounts with exceptions. These exceptions included accounts that were or had:

- Terminated employees or contractors.
- Expired passwords.
- Users with duplicate accounts.

COBIT recommends that organizations should have a process for (1) requesting, establishing, issuing, and closing user accounts; (2) tracking users and their respective access authorizations; and (3) managing these functions. Also, management should review the levels of access each individual has, determine conformity with the concept of least privilege, and determine if all accounts are still active, management authorizations are up-to-date, and required training has been completed. Such reviews should be conducted on both an application-by-application basis and a system-wide basis.

This audit recommendation was made in a past OIG audit report. Based on test results from our audit, we agree that the weakness underlying this recommendation still exists, and CAO should continue efforts to implement policies and procedures:

| Recommendation | Status of Recommendation | Management Response |
|---|---|---|
| Report No. 01-HOC-06, 4.2<br><br>Implement policies and procedures for network and security administrative activities as they relate to user account management to ensure proper, uniform, and consistent application of controls for financial systems and related network components. | Status: Some Progress<br><br>HIR issued *House Information Resources Policy - User Account Management for CAO Supported Information Technology Systems*. This policy establishes procedures for notifying HIR Security of personnel terminating employment with CAO to ensure the personnel related user accounts are removed or disabled immediately.<br><br>The policy does not address procedures associated with establishing user accounts, granting appropriate account privileges within the system, creating accounts with standard naming conventions, or monitoring account activities. | CONCUR<br><br>House Information Resources (HIR) issued *House Information Resources Policy – User Account Management for CAO Supported Information Technology Systems* establishing procedures for the account maintenance and administration of system accounts held by departing CAO employees, contractors and interns. HIR is in the process of establishing the framework for procedures associated with establishing, maintaining, and monitoring user accounts on CAO supported information technology systems.<br><br>HIR has explored options for standardizing naming conventions. Because the financial systems this recommendation pertains to are legacy systems built on the IBM CICS platform and utilize an external security package (HIR Security uses ACF2), modifications to the user account naming conventions for these systems is not possible. HIR will update its Enterprise Architecture Principles document to include the use of standardized naming conventions as a standard guideline for future financial systems. All actions will be completed by December 15, 2002. |

**System Development and Program Change Controls**

During both the CY 2000 and 2001 audits, we identified weaknesses with CAO's Program Change Control Policy and HIR's program change procedures and processes. Documentation of program changes for the payroll system and programs that interface with FFS are not consistently maintained. Programmers for payroll and systems that interface with FFS do not always follow testing procedures. Specifically, programmers are permitted to judgmentally determine the extent of program testing and documentation.

Finance uses NBC program change management procedures for FFS; application programmers can, however, circumvent program change controls with the privileges extended as the alternate security administrator. Additionally, Finance does not have procedures to constantly monitor programmer activities.

Without adequate controls over program changes, management increases the risks of intentional and unintentional processing errors and functions being introduced into an application. Risks increase that an unauthorized activity may be programmed into an application.

During our CY 2001 audit, we found that FFS program changes interfacing with FFS are not properly documented, controls over the tracking and monitoring of change requests are not in place, and FMS program changes have not been documented. Although CAO implemented an informal process to require documentation, effective December 30, 2001, this will only partially correct noted deficiencies. Enhancements should include the following at a minimum:

- Documenting FMS testing methodology.
- Tracking program change requests from start to completion.
- Developing user acceptance test standards.
- Identifying HR official authorized to approve and accept program changes.
- Establishing test standards for HR use in testing FMS program changes.

This audit recommendation was made in a past OIG audit report. Based on test results from our audit, we agree that the weakness underlying this recommendation still exists, and CAO should continue efforts to develop and implement change control monitoring procedures:

| Recommendation | Status of Recommendation | Management Response |
|---|---|---|
| Report No. 01-HOC-06, 4.3<br>Develop and implement change control monitoring procedures appropriate for legacy financial systems to ensure compliance with standards. | Status: Limited Progress<br>Change control for legacy financial systems is an informal, undocumented process. Financial Systems within Finance rely on NBC procedures, which do not address change control procedures unique to the House (i.e., user request procedures, user testing of changes, and user verification of changes). | CONCUR<br>Finance has modified existing procedures to document the recording and monitoring of requests for service and the subsequent change control tracking to assure that changes to FFS resulting from requests or problem reports are properly approved and tracked. Changes in |

| Recommendation | Status of Recommendation | Management Response |
|---|---|---|
| | These procedures should ensure all parties impacted by the change or new program are involved in the requirements, design and testing, and that each party signs an acceptance prior to placing the program into the production environment.<br><br>HIR implemented a staff payroll change policy on December 30, 2001. The policy was issued too late in the year to assess the effectiveness; however, we noted that staff payroll program changes were not documented during CY 2001. Since FMS is critical to the financial statements the FMS change control procedures should be enhanced to:<br>• Document the FMS testing methodology<br>• Track change requests from start to completion<br>• Identify HR official authorized to approve and accept program changes<br>• Establish HR test standards | the FFS configuration resulting from responses to these requests and problems have been tested and installed according to House standards and reporting requirements.<br><br>HIR manages systems change control through a centralized documentation and approval process overseen by a Configuration Management Manager. Individual systems manage change by specifically documented procedures that incorporate the centralized configuration control process and include system specific testing methodologies and standards. HIR has updated the *Standard Operating Procedures for Financial Management System Change Control Procedures* to reflect change control monitoring procedures as well as system specific testing methodologies and standards for legacy financial systems. The CAO believes they have taken appropriate action to close this recommendation. |

In addition, we recommend that Chief Administrative Officer:

| Recommendation | Status of Recommendation | Management Response |
|---|---|---|
| 3. Monitor program changes of programs used to extract FFS data for vendor payments and other reports to ensure extracts and reports properly reflect the transactions residing in and maintained by FFS. | New Recommendation | CONCUR<br><br>Finance has included all other systems maintained within Finance in the modified procedures to document the recording and monitoring of requests for service and the subsequent change control tracking to assure that changes to all systems resulting from requests or problem reports are properly approved and tracked. Changes in the system configuration resulting from responses to these requests and problems were tested and installed according to House standards and reporting |

| Recommendation | Status of Recommendation | Management Response |
|---|---|---|
| | | requirements. The CAO believes they have taken appropriate action to close this recommendation. |

### Segregation of Duties

Although HIR has established processes for segregation of duties among application programmers, system administrators, and security administrators, it has not formally documented the processes in their policies or procedures. Inadequate documentation regarding segregation of duties increases the potential for an individual to circumvent or subvert the system to perform unauthorized activities without detection.

COBIT provides the guidance for segregation of duties. Senior management should implement a division of roles and responsibilities to exclude the possibility for a single individual to subvert a critical process. Management should also ensure that personnel are performing only those duties stipulated for their respective jobs and positions. COBIT further suggests that the organization should establish procedures for processing data to ensure that segregation of duties is maintained and that work performed is routinely verified. The procedures should ensure adequate update controls, such as run-to-run control totals and master file update controls, are in place.

We recommend that the Chief Administrative Officer:

| Recommendation | Status of Recommendation | Management Response |
|---|---|---|
| 4. Document existing policies and procedures for segregation of duties among application programmers, system administrators, security administrators, and other critical job functions to formalize processes. | New Recommendation | CONCUR<br><br>HIR recognizes the importance of ensuring secure systems administration and maintenance. The Office of the CAO has documented policies and procedures that require systems administrators of CAO supported information technology systems to periodically audit system logs and notify HIR Security of anomalies found. Additionally, the policy provides for random system log audits by HIR Security. The CAO believes we have taken appropriate steps to close this recommendation. |

### Service Continuity

The House has not developed an overall service continuity plan that addresses all critical financial systems and that coordinates activities with third party service providers. The HIR

Business Recovery Plan only addresses mainframe applications. Specifically, the CAO does not have a business recovery plan for FFS or PD. Additionally, the Member Services Contingency Plan has not been updated to reflect current practices.

The National Institute of Standards and Technology (NIST) recommends that organizations should practice contingency planning, because it makes good business sense. Contingency planning addresses how to keep an organization's critical functions operating in the event of disruptions, both large and small. NIST also requires an organization to periodically test the plan and revise it as necessary based on test results.

We recommend that the Chief Administrative Officer:

| Recommendation | Status of Recommendation | Management Response |
|---|---|---|
| 5. Coordinate contingency planning and recovery policies and procedures to ensure a comprehensive approach that includes the network, Mainframe Computer, FFS, PD, and all critical financial systems. | New Recommendation | CONCUR<br><br>The CAO has long recognized the importance of disaster recovery and the necessity to continuously improve that capability. In recent years, the CAO has taken steps to implement recommendations identified in the 1999 (Troy) *Risk Assessment and Disaster Recovery* Plan. Additionally, there are contingency planning and recovery policies and procedures. For several years, HIR has had a contract with IBM Business Recovery Services in place to provide business continuity services for all applications executing on the HIR mainframe, which includes the Staff Payroll System. Mainframe backup tapes, maintained off-site at the Library of Congress Data Center, were used to successfully execute Staff Payroll at a remote location in October 2001 when House offices were evacuated.<br><br>In March 2002 the "HIR Off-Site Tape Storage Process" was implemented. Full system backup tapes of all HIR maintained systems are stored off-site at the GPO Data Center. Recovery procedures are documented to restore systems.<br><br>Substantial improvements in business continuity and disaster recovery for all CAO maintained information systems will be |

| Recommendation | Status of Recommendation | Management Response |
|---|---|---|
| | | realized with the House Business Continuity/Disaster Recovery Project. All CAO managed information systems executing in the HIR Data Center will have a redundant system. Connectivity to the FFS system executing at the National Business Center will be provided. Contingency planning and recovery policies and procedures are being developed as part of this implementation. All actions will be completed by April 30, 2003. |
| 6. Update Member Services contingency plan to reflect current practices. | New Recommendation | CONCUR<br><br>The Member Services back-up server has been moved to an alternate location. Off-campus access capability has been implemented to permit authorized system users secure access to the system from off-campus, remote locations and the final definition of procedures for using the remote-access capability has been completed. The updated contingency plan has been finalized. The CAO believes they have taken appropriate action to close this recommendation. |

HIR tape backup and storage procedures are inadequate to ensure the viability and availability of backup tapes for recovery purposes in the event of an emergency. We noted that the restore procedures are not consistently tested.

COBIT provides the guidance for backup and storage procedures. Offsite storage of critical backup media, documentation, and other IT resources should be established to support recovery and business continuity plans. Business process owners and IT function personnel should be involved in determining what backup resources need to be stored offsite. The offsite storage facility should be environmentally appropriate to the media and other resources stored and should have a level of security commensurate with that needed to protect the backup resources from unauthorized access, theft or damage. IT management should ensure that offsite arrangements are periodically assessed, at least annually, for content, environmental protection, and security.

We recommend that Chief Administrative Officer:

| Recommendation | Status of Recommendation | Management Response |
|---|---|---|
| 7. Develop and implement policies and procedures to test restore procedures consistently to ensure that data backed up on tape are accurate. | New Recommendation | CONCUR<br><br>As part of the House Business Continuity/Disaster Recovery project, Storage Area Network (SAN) technology is being implemented. CAO managed information systems will utilize the SAN for data storage and recovery. Policy and procedures to test restore procedures consistently to ensure data accuracy are being developed. All actions will be completed by June 30, 2003. |

The following prior-year recommendations were closed when changes in House operations remedied the associated underlying weaknesses.

| Recommendations |
|---|
| Report No. 01-HOC-06, 4.1<br><br>Implement improved logical controls to secure data files containing sensitive and financial data from unauthorized activities. |
| Report No. 01-HOC-06, 4.4<br><br>Through more effective monitoring, ensure that established procedures and practices are followed for newly installed network components of the financial systems. |
| Report No. 01-HOC-06, 4.5<br><br>Through more effective monitoring, ensure that network servers supporting the financial systems are re-certified in accordance with HISPOL guidance. |
| Report No. 01-HOC-06, 4.6<br><br>Establish compensating controls to validate production data and files and establish and implement controls to enable detection of unauthorized alteration of data in the financial systems and related components. |
| Report No. 01-HOC-06, 4.7<br><br>Assign security officer duties to individuals other than programmers. |

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# Management Comments

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# Management Report On Internal Control

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# The U.S. House of Representatives
# Management Report on Internal Control

In connection with your examination of our assertion that the U.S. House of Representatives (House) maintained effective internal control over financial reporting as of December 31, 2001, for the purpose of expressing an opinion as to whether the assertion is fairly stated, in all material respects in accordance with standards prescribed by the General Accounting Office in *Standards for Internal Control in the Federal Government*, dated November 1999, we confirm to the best of our knowledge and belief, the following representations made to you during your examination:

- We are responsible for establishing and maintaining effective internal control over financial reporting.

- We have performed an evaluation of the effectiveness of the House's internal control over financial reporting in accordance with standards prescribed by the General Accounting Office in *Standards for Internal Control in the Federal Government*, dated November 1999, the objectives of which include:

  - Effectiveness and efficiency of operations,
  - Reliability of financial reporting, and
  - Compliance with applicable laws and regulations.

- Based on our evaluation, we assert that the House maintained effective internal control over financial reporting as of December 31, 2001, based on the above-specified control criteria.

- We have disclosed to you all significant deficiencies in the design or operation of internal control that could adversely affect the House's ability to record, process, summarize, and report financial data consistent with our assertions in the financial statements.

- We have identified all deficiencies in internal control we believe to be material weaknesses.

- We have not encountered any instances of fraud.

- Subsequent to the date of our management report, there have been no significant changes to internal control and no other factors have arisen that might significantly affect internal control, including any corrective action taken by the House with regard to significant deficiencies and material weaknesses.

James M. Eagen III
Chief Administrative Officer

Bernice Brosious Bernice Brosious
Associate Administrator, Office of Finance

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# CAO Response to the 2001 Financial Statement Audit Report

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James M. Eagen III
Chief Administrative Officer

Office of the
Chief Administrative Officer
U.S. House of Representatives
Washington, DC 20515–6860

**MEMORANDUM**

**To:** Steve McNamara
Inspector General

**From:** Jay Eagen
Chief Administrative Officer

**Subject:** Response to the 2001 Financial Statement Audit Report

**Date:** July 26, 2002

Thank you for the opportunity to comment on the 2001 Financial Statements Audit Report. We have carefully reviewed the report's findings and recommendations and concur with each of them.

The following is a brief response for each of the audit recommendations made in the audit report:

**Weakness 1:** **The Staff Payroll System Is Obsolete and Needs to Be Replaced**

**Recommendation:** *(99-HOC-07, 1.1)* Replace the staff payroll and human resources systems ensuring that: (1) system inefficiencies are addressed, and (2) adequate controls are established to manage and account for annual and sick leave for applicable employees.

**CONCUR.**

The House has received and reviewed proposals for the new staff payroll system. The CAO submitted the selected proposal and recommendation for award to the Committee on House Administration (CHA) for their review and approval. The CHA approved the recommendation on June 5, 2001. The CAO received approval to release the funding for the system implementation from the Subcommittee on Legislative on June 27, 2001, and a contract for payroll/HR implementation was awarded to Projectivity, Inc. of Rockville, MD on August 02, 2001. The selected Commercial-Off-The-Shelf application chosen for implementation was Lawson Software's Human Capital Management (HCM) Suite.

The awarded contract has two distinct phases. The first (or Discovery) phase is for re-validation of requirements and documentation of workflow processes. Another component of Phase 1 involves identification of GAP issues and costs that exist between the House's processes and requirements, and the capabilities of the Lawson HCM application. Phase 2 is contractually structured as an option that can only be exercised by the House. If exercised, Phase 2 authorizes acquisition of the necessary hardware and software, and implementation of the new Lawson HCM suite.

Phase 1 has been completed and a recommendation to move forward with Phase 2 has been submitted through CAO senior management to CHA. Approval from CHA to initiate Phase 2 was received July 26, 2002. Based on this, the anticipated "go live" implementation date for the Lawson HCM is April 01, 2004.

The implementation of the new Lawson system will address existing system inefficiencies and manual processes, and will create controls for management of annual and sick leave for applicable employees.

**Weakness 2:** **The House Lacks Sufficient Information with Which to Manage and Maintain Accountability over Its Property and Equipment**

**Recommendation:** *(95-HOC-22, 4.1)* Ensure that the new financial management system and subsidiary systems are capable of accumulating and providing property and equipment information, including:

- Cost or value
- Description and acquisition date
- Useful life and depreciation method and amount
- Scheduled replacement date
- Location
- Disposal date

**CONCUR.**
The House's new Fixed Asset and Inventory Management System (FAIMS), as implemented August 2002, maintains detailed information on property and equipment, including the requirements listed above. The system does not track assets by scheduled replacement date, but instead notifies users when an asset is nearing the end of its useful life. Summary information on property and equipment is maintained in the Federal Financial System (FFS), the House's official accounting system of record. As of May 31, 2002, the House had successfully performed a test conversion of all Office Systems Management (OSM) and House Information Resources (HIR) legacy system data into FAIMS, and had calculated accumulated depreciation on all capital assets converted into FAIMS. The converted data and associated accumulated depreciation was reconciled with the acquisition cost data maintained in the legacy systems, the manual spreadsheets maintained in the Office of Finance, and FFS. End-to-end testing with FFS and Procurement Desk (PD) was completed in December 2001 and demonstrated the accurate recording of cost information from obligation of the funds to receipt of the asset, and the successful transmission of asset disposal and transfer information from FAIMS to FFS. The CAO believes we have taken appropriate steps to close this recommendation.

**Recommendation:** *(01-HOC-06, 2.1)* Strengthen and enforce its policies for properly determining, calculating, and recording all costs associated with the purchase, trade in, or disposal of capitalized assets.

**CONCUR.**
The Office of Finance submitted to the OIG on September 30, 2001, a copy of an instructional guide developed for property custodians to use in determining asset acquisition and disposal costs and the treatment of trade-in values. The Office of Finance completed training on this guide for all FAIMS users on July 15, 2002. The training also included a review of Budget Object Class codes used for capital and non-capital purchases, FAIMS general ledger accounts, and House asset policy and procedures. The CAO believes we have taken appropriate steps to close this recommendation.

**Recommendation:** *(01-HOC-06, 2.2)* Establish quality control procedures over electronic spreadsheets used for property and equipment that will include reconciliation of all supporting documentation to summary schedules used for financial reporting. Finance should be able to clearly show the components of property and equipment (additions, deletions, and other adjustments) and provide accurate, detailed schedules to support each of the totals and show how they tie to general ledger accounts.

**CONCUR.**
The Office of Finance has developed a template of detailed schedules that clearly show all property and equipment transactions for the calendar year. Separate spreadsheets have been created that show yearly transactions at the detail level for all House property and equipment purchases, additions, transfers-in, transfers-out, disposals, and adjustments. These spreadsheets link to lead schedules that summarize the above information by House reporting entity and general ledger account. The lead schedules will show a clear audit trail from the property and equipment amount disclosed on the previous year's financial statements balance to the amount disclosed on the current year's financial statements. The CAO believes we have taken appropriate steps to close this recommendation.

**Recommendation 1:** Divide the reconciliation responsibilities by G/L account, making one individual responsible for reconciling the property account from legacy system and detail/summary schedules to FFS.

**CONCUR.**
The Office of Finance has taken action to divide the property and equipment reconciliation responsibilities by general ledger account. The responsibility for reconciling both the cost and accumulated depreciation of specific general accounts has been divided between two individuals. In addition, one individual is responsible for reconciling both the cost and accumulated depreciation general ledger accounts from the legacy system to detail/summary schedules to FFS, and preparing adjusting entries where required. This should improve the House's accountability over property and equipment because individual staff members will be responsible for the ending balances presented on the financial statements. The CAO believes we have taken appropriate steps to close this recommendation.

**Recommendation 2:** Prepare separate worksheets for each PPE classification that detail all additions, a separate worksheet for all disposals, and a separate worksheet for all other adjustments by PPE classification.

**CONCUR.**
The Office of Finance has developed a template of detailed schedules that show all property and equipment transactions for the calendar year by classification (3, 5, 7 and 10 year property), House reporting entity, and general ledger account. Separate spreadsheets have been created that show yearly transactions at the detail level for all House property and equipment purchases, additions, transfers-in, transfers-out, disposals, and adjustments. These spreadsheets link to lead schedules that summarize the above information by House reporting entity and general ledger account. These lead schedules will show a clear audit trail from the property and equipment amount disclosed on the previous year's financial statements balance to the amount disclosed on the current year's financial statements. The CAO believes we have taken appropriate steps to close this recommendation.

**Recommendation 3:** Perform a quality assurance review of all PPE classification before preparation of the financial statements.

**CONCUR.**
The Office of Finance will perform a quality assurance review of all PPE classifications by January 31, 2003 before preparation of the House's 2002 annual financial statements begins. This review will ensure that lead schedules are reconciled to detailed schedules. Finance has developed a template of detailed and lead schedules that will clearly show all House property and equipment transactions. The detailed schedules link to lead schedules that summarize PPE information by House reporting entity and general ledger account. These lead schedules will show a clear audit trail from the property and equipment amount disclosed on the previous year's financial statements balance to the amount disclosed on the current year's financial statements. The detailed schedules will be reconciled to the lead schedules and vice versa. These schedules will then be reconciled to the financial statements accounting software and to FFS. In addition, Finance will perform a periodic sample to ensure the accuracy of PPE classifications.

**Weakness 3:** **Financial Management Continues To Be Hampered By Inadequate Systems, Resources, and Procedures**

**Recommendation:** *(95-HOC-22, 2.2)* Ensure that the new financial management system has the capability to:

- Compare orders against the available budget by office
- Prompt offices when orders have not been received or when bills have not been paid after a specified period of time

**CONCUR.**
FFS verifies funds availability any time an obligating or payment document is processed through the system. The House has fully implemented Procurement Desktop (PD), which also utilizes this functionality to check funds availability when processing requisitions, obligations or

receivers. PD passes the receipt of goods and services data to FFS. With the August 2002 implementation of FAIMS, PD can now pass information for assets to FAIMS. The implementation of accrual accounting in 2001 allows the House to manage items received but not yet paid. The Office of Finance generates unliquidated obligation reports from FFS to identify open obligations. These reports are distributed to all CAO units monthly for review and follow up. Additionally, accounts payable aging reports are generated from FFS and distributed to all CAO units monthly. These reports help units to identify and track outstanding accounts payable. The CAO believes we have taken appropriate steps to close this recommendation.

**Recommendation:** *(01-HOC-06, 3.1)* Ensure that the new financial management system has the capability to:

- Generate annual financial statements
- Integrate information for other House financial systems

**CONCUR.**
The House has developed requirements for a replacement financial management system that include the capability to generate annual financial statements and maximize integration. The House completed a market analysis of viable systems by December 2001. Prior to the implementation of a replacement system, numerous manual calculations currently performed by the Office of Finance will be eliminated with the implementation of FAIMS and the new payroll system, mentioned above in our response to Weakness No. 1. The FAIMS system, as implemented August 2002, interfaces with FFS and eliminates the need for the Office of Finance to manually enter asset depreciation, transfers and disposals into FFS. FAIMS will also eliminate the requirement for the Office of Finance to track capital assets and cumulative depreciation on manual spreadsheets. The new payroll system, scheduled to be implemented late in 2004, will have the capability to accrue personnel benefits currently calculated manually by the Office of Finance.

**Weakness 4:** **Weaknesses over Financial Information Systems Reduce the Integrity of Financial Data and Reporting**

**Recommendation 1:** Revise the information security policy to require all personnel with access to financial systems to attend security awareness training during orientation and annual refresher training thereafter.

**CONCUR.**
The Office of the CAO does include a security awareness-training segment for all CAO employees during its new employee orientation briefings. These briefings are scheduled throughout the year.

Additionally, a CAO policy has been written that requires all CAO personnel with access to House information systems to attend annual security awareness refresher training.

Further, users of CAO supported financial systems (e.g., Procurement Desktop) that work in offices external to the CAO will annually be identified and encouraged to attend the security awareness refresher training. The CAO believes we have taken appropriate action to close this recommendation.

**Recommendation 2:** Modify the contract with NBC to require it to obtain an annual independent assurance of the effectiveness of internal control and security control to adequately protect and safeguard the House financial data and software and the effectiveness of internal control to provide complete processing and continuity of service. Additionally, modify the contract to require NBC to provide CAO with the results of the independent assurance and to provide quarterly briefings on the progress being made to resolve control weaknesses.

**CONCUR.**
The Office of Finance has taken the steps to include wording in the Service Level Agreement with NBC for FY 2003 and beyond that indicates NBC will have an independent audit each year of the data center operations, that the House will receive a copy of the results within two weeks after NBC receives the results, that the House will receive a mitigation plan with the results of the audit and that we will receive at least quarterly updates on status and progress on any activities at NBC to mitigate or prevent internal control problems and improvements to security.

The Office of Finance received the latest status report from NBC on efforts to make recommended improvements from an SAS 70 audit performed by KPMG that was concluded in January 2002. In addition, representatives from the Office of Finance and HIR met with NBC to go over the status of these findings and other work ongoing at NBC to improve operations and internal controls. The CAO believes we have taken appropriate action to close this recommendation.

**Recommendation:** *(01-HOC-06, 4.2)* Implement policies and procedures for network and security administrative activities as they relate to user account management to ensure proper, uniform, and consistent application of controls for financial systems and related network components.

**CONCUR.**
House Information Resources (HIR) issued *House Information Resources Policy – User Account Management for CAO Supported Information Technology Systems* establishing procedures for the account maintenance and administration of system accounts held by departing CAO employees, contractors and interns. HIR is in the process of establishing the framework for procedures associated with establishing, maintaining, and monitoring user accounts on CAO supported information technology systems.

HIR has explored options for standardizing naming conventions. Because the financial systems this recommendation pertains to are legacy systems built on the IBM CICS platform and utilize an external security package (HIR Security uses ACF2), modifications to the user account naming conventions for these systems is not possible. HIR will update its Enterprise Architecture Principles document to include the use of standardized naming conventions as a standard guideline for future financial systems. All actions will be completed by December 15, 2002.

**Recommendation:** *(01-HOC-06, 4.3)* Develop and implement change control monitoring procedures appropriate for legacy financial systems to ensure compliance with standards.

**CONCUR.**
The Office of Finance has modified existing procedures to document the recording and monitoring of requests for service and the subsequent change control tracking to assure that changes to FFS resulting from requests or problem reports are properly approved and tracked. Changes in the FFS configuration resulting from responses to these requests and problems have been tested and installed according to House standards and reporting requirements.

HIR manages systems change control through a centralized documentation and approval process overseen by a Configuration Management Manager. Individual systems manage change by specifically documented procedures that incorporate the centralized configuration control process and include system specific testing methodologies and standards. HIR has updated the *Standard Operating Procedures for Financial Management System Change Control Procedures* to reflect change control monitoring procedures as well as system specific testing methodologies and standards for legacy financial systems. The CAO believes we have taken appropriate action to close this recommendation.

**Recommendation 3:** Monitor program changes of programs used to extract FFS data for vendor payments and other reports to ensure extracts and reports properly reflect the transactions residing in and maintained by FFS.

**CONCUR.**
The Office of Finance has included all other systems maintained within Finance in the modified procedures to document the recording and monitoring of requests for service and the subsequent change control tracking to assure that changes to all systems resulting from requests or problem reports are properly approved and tracked. Changes in the system configuration resulting from responses to these requests and problems were tested and installed according to House standards and reporting requirements. The CAO believes we have taken appropriate action to close this recommendation.

**Recommendation 4:** Document existing policies and procedures for segregation of duties among application programmers, system administrators, security administrators, and other critical job functions to formalize processes.

**CONCUR.**
HIR recognizes the importance of ensuring secure systems administration and maintenance. The Office of the CAO has documented policies and procedures that require systems administrators of CAO supported information technology systems to periodically audit system logs and notify HIR Security of anomalies found. Additionally, the policy provides for random system log

audits by HIR Security. The CAO believes we have taken appropriate steps to close this recommendation.

**Recommendation 5:** Coordinate contingency planning and recovery policies and procedures to ensure a comprehensive approach that includes the network, Mainframe Computer, FFS, PD, and all critical financial systems.

**CONCUR.**
The CAO has long recognized the importance of disaster recovery and the necessity to continuously improve that capability. In recent years, the CAO has taken steps to implement recommendations identified in the 1999 (Troy) *Risk Assessment and Disaster Recovery* Plan. Additionally, there are contingency planning and recovery policies and procedures in place to provide business continuity services for all applications executing on the HIR mainframe, which includes the Staff Payroll System. Mainframe backup tapes, maintained off-site at the Library of Congress Data Center, were used to successfully execute Staff Payroll at a remote location in October 2001 when House offices were evacuated.

In March 2002 the "HIR Off-Site Tape Storage Process" was implemented. Full system backup tapes of all HIR maintained systems are stored off-site at the GPO Data Center. Recovery procedures are documented to restore systems.

Substantial improvements in business continuity and disaster recovery for all CAO maintained information systems will be realized with the House Business Continuity/Disaster Recovery Project. All CAO managed information systems executing in the HIR Data Center will have a redundant system. Connectivity to the FFS system executing at the National Business Center will be provided. Contingency planning and recovery policies and procedures are being developed as part of this implementation. All actions will be completed by April 30, 2003.

**Recommendation 6:** Update Member Services contingency plan to reflect current practices.

**CONCUR.**
The Member Services back-up server has been moved to an alternate location. Off-campus access capability has been implemented to permit authorized system users secure access to the system from off-campus, remote locations and the final definition of procedures for using the remote-access capability has been completed. The updated contingency plan has been finalized. The CAO believes we have taken appropriate action to close this recommendation.

**Recommendation 7:** Develop and implement policies and procedures to test restore procedures consistently to ensure that data backed up on tape are accurate.

**CONCUR.**
As part of the House Business Continuity/Disaster Recovery project, Storage Area Network (SAN) technology is being implemented. CAO managed information systems will utilize the SAN for data storage and recovery. Policy and procedures to test restore procedures consistently to ensure data accuracy are being developed. All actions will be completed by June 30, 2003.

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